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UNCLASSIFIED

AGENCY FOR
INTERNATIONAL
DEVELOPMENT

UNITED STATES OF AMERICA

ANNUAL BUDGET SUBMISSION

FY 83

COSTA RICA

JUNE 1981

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

UNCLASSIFIED

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ANNUAL BUDGET SUBMISSION

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FY 1983 ANNUAL BUDGET SUBMISSION

TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT ($ Thousands)

Country/Office USAID/Costa Rica

DEVELOPMENT ASSISTANCE	FY 1981 EST	FY 1982 EST	FY 1983 REQUEST MIN	CURR	AAPL	PLANNING PERIOD 1984	1985	1986	1987
Agriculture Rural Development and Nutrition	1,179	655	300	650	650	545	9,565	10,995	624
Grants	1,179	655	300	650	650	545	1,065	995	624
Loans	-	-	-	-	-	-	8,500	10,000	-
Population	353	380	375	475	475	470	420	470	326
Grants	353	380	375	475	475	470	420	470	326
Loans	-	-	-	-	-	-	-	-	-
(of which centrally procured commodities)	(98)	(125)	(115)	(115)	(115)	(115)	(100)	(115)	(75)
Health	-	-	-	-	-	-	-	-	-
Education and Human Resource Development	10	590	375	775	775	860	515	25	25
Grants	10	590	375	775	775	860	515	25	25
Loans	-	-	-	-	-	-	-	-	-
Selected Development Activities	5,476	6,175	7,950	7,100	7,100	8,125	500	510	12,025
Grants	476	1,175	550	600	600	725	500	510	525
Loans	5,000	5,000	7,400	6,500	6,500	7,400	-	-	11,500
SUB-TOTAL FUNC. ACCOUNTS	7,018	7,800	9,000	9,000	9,000	10,000	11,000	12,000	13,000
Grants	2,018	2,800	1,600	2,500	2,500	3,000	2,500	2,000	1,500
Loans	5,000	5,000	7,400	6,500	6,500	7,000	8,500	10,000	11,500

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE I - LONG RANGE PLAN BY APPROPRIATION ACCOUNT ($ Thousands)

Country/Office USAID/Costa Rica

DEVELOPMENT ASSISTANCE	FY 1981 EST	FY 1982 EST	FY 1983 REQUEST MIN	CURR	AAPL	PLANNING PERIOD 1984	1985	1986	1987
Economic Support Fund		25,000	5,000	18,000	35,000	-	-	-	-
Grants		-	-	-	-	-	-	-	-
Loans		25,000	5,000	18,000,	35,000				
TOTAL DA AND ESF	7,018	32,800	14,000	27,000	44,000	-	-	-	-
PL 480 (Non-add)									
Title I	-	10,000	10,000	15,000	15,000	-	-	-	-
(of which Title III)	-	-	-	-	-	-	-	-	-
Title II	2,000	1,410	2,410	2,410	2,410	-	-	-	-
Housing Guaranties	-	20,000	-	-	-	20,000	-	-	-
OVERALL TOTAL	9,018	64,210	26,410	44,410	61,410	30,000	11,000	12,000	13,000
TOTAL PERSONNEL									
USDH (Workyears)	19.5	16*	16*	16*	16*	18	18	18	18
FNDH (Workyears)	19	19	19	19	19	19	19	19	19

* With fewer people the Mission's effectiveness at a critical time would inevitably suffer; we strongly advise against any position cuts. (See Table V narrative section).

TABLE I NARRATIVE

Part I - Update on Macroeconomic Situation and Impact on Mission's Strategy

USAID/Costa Rica's most recent CDSS discussed the long-term tendencies and recent events and policies responsible for the country's current economic crisis. That document also described the increasingly severe problems, including a rise in social tensions and the possibility of civil strife, which Costa Rica would probably face through 1983. Recent economic indicators for Costa Rica provide little basis for optimism regarding the country's well-being and growth prospects. Inflation continues to worsen and will probably exceed 40% in 1981. The public sector deficit is limited by the IMF Agreement to 5.25 billion colones in 1981 ($276 million at the current exchange rate of 19 colones =US$1.00). The deficit continues to be huge although it is down to 9% of GDP, from 12%. Domestic petroleum prices since January 1981 have increased 40% for diesel and 55% for gasoline . Industrial and agricultural productivity continues to be low. A large devaluation, so far exceeding 130%, has taken place and is continuing. The Wholesale Price Index increased 16% in the first quarter of 1981. Unemployment is officially shown at 7.4% but is certainly higher. Contrary to projections, exports dropped 11.4% during the first quarter due to the continued recession in the Central American Common Market and rock bottom coffee prices.

During the first quarter of 1981, imports totalled $336.7 million, down 17% in nominal terms from the first quarter of 1980. It now appears that the contraction of imports will be more severe than anticipated in the CDSS because of reduced export prices, the unstable currency, and the delay until June in signing the GOCR-IMF agreement -- this delay is likely to reduce the amount of foreign commercial bank financing made available in 1981. Such a severe import contraction can only result in a substantial decline in GDP. Because of the large devaluation and generally depressed economic conditions, per capita GDP, especially in dollar terms, will drop by 27% or more.

Total public sector medium and long-term external debt is $1.8 billion and has increased since January 1981 only by the amount of concessional loan project disbursements. Short-term debt is estimated at $300 million. International loans have been unavailable since January. Heavily negative foreign exchange reserves and pending debt service payments of $270 million have forced the GOCR to seek a rollover of $80 million in short-term debt payments due in May and June and to sell its gold holdings ($42 million).

The inescapable conclusion from a review of these factors is that Costa Rica's economy has become enmeshed in a steady downward spiral caused by abrupt changes in the terms of trade (declining coffee prices and high oil prices), inappropriate growth strategies and policies, and tactical errors. The GOCR has already undertaken a number of budget reduction measures and structural changes to reverse the unfavorable trends in the economy. Foremost among these is the GOCR-IMF agreement signed in mid-June. Also included are increases in petroleum prices mentioned above to eliminate a projected 1,400 million colon (US$74 million at 19 colones=$1) deficit in the National Petroleum Refinery's (RECOPE) budget and increases in telephone and electricity rates. Cuts in potential 1981 deficits total 1.9 billion colons (US$100 million) for major autonomous agencies such as the Costa Rican Development Company (CODESA), the National Electric Company (ICE), and the Social Security Institute (CCSS). A freeze on hiring Central Government employees has also been decreed. The public sector deficit is expected to be kept at 5.25 billion colons by the end of 1981 if these measures are successful and if the newly established Budget Authority is ablé to hold the line on spending by autonomous and semi-autonomous agencies as agreed to in the IMF accord.

Following initial delays caused by the need to determine the amount of the Central Bank's unmet foreign exchange obligations to importers for purchases made at the previous exchange rate (8.6:1), negotiation of an Extended Financing Facility with the International Monetary Fund was concluded. Approved by the IMF Board of Directors, on June 17, 1981, the agreement will allow Costa Rica to receive 276.8 million SDRs (equivalent to $329.0 million) over the next three years. The initial disbursement will be for about $47 million. At the same time a $20 million Compensatory Financing Facility was also made. The first tranche disbursement, scheduled for August, 1981, will be about $20 million. In the agreement,the GOCR has agreed to issue three year dollar-denominated certificates, or 5 year colon bonds, to importers who were entitled to foreign exchange at the old 8.6 rate. The agreement sets limits on foreign borrowing, the public sector deficit, and credit to the public sector. It foresees zero change in net reserves, and a zero deficit for RECOPE. A mixed commission composed of representatives from the private and public sectors was set up by the GOCR to monitor progress on meeting targets. The GOCR has already implemented a 5% ad valorem tax on exports for a period of one year and established a unified exchange rate. However, it is exhausting its dwindling reserves trying to maintain that rate.

Costa Rica will be unable to reverse the severe decline in its economy in 1981. However, the deepness of the decline can be moderated with substantial external support. With an IMF agreement and fulfillment of its targets, Costa Rica is expected to have some renewed access to external credit and financing. The World Bank has indicated that it will provide about $130 million in 1981-83 to support the country's stabilization effort, and Mexico and Venezuela will provide about $60 million annually through the Petroleum Facility. The IDB is also considering a special $50 million loan. We anticipate that private and official capital inflows will be low in 1981 (net about $225 million) and will rise somewhat in 1982. At present we have no basis for revising the low private capital inflow projections contained in our CDSS.

Even with this level of financial support, the economic stabilization and restructuring measures which the GOCR will have to put into effect under the proposed IMF agreement will inevitably mean a serious contraction in the private sector and cause higher unemployment, a prolonged retrenchment (two-three years) in the frequency and coverage of social services, a decline in real GDP, and a lower standard of living for much of the population. It is the Mission's goal to play a role in helping to moderate the economic adjustment to a tolerable level.

Under the strategic approach described in the recent CDSS, the Mission would join with the IMF, the World Bank and the IDB in support of Costa Rica's efforts to control the previously undisciplined growth of its public sector, alleviate its present balance of payments crisis, and establish a new productive basis for sustainable economic development. We see no reason to substantially change that approach. Our economic stabilization and recovery package would consist of Economic Support Fund (ESF)assistance; grant funds for ongoing projects, and two new initiatives which further the stabilization objectives; increased development lending also for activities consistent with the stabilization and recovery strategy; a PL 480 Title I Program; continuation of PL 480 Title II; and a Housing Guaranty program implemented through the private sector. The Mission strongly recommends assistance in these areas starting in FY 1982 and continuing through FY 1983. The idea is to help Costa Rica through the coming difficult, costly and potentially destabilizing period while encourage its efforts to put the economy on a sound basis.

In response to State 123678,however, the Mision's ABS also includes an Assistance package which excludes ESF but retains development funds, PL 480 Title I and II and HG programs. In FY 1982, components of this package would include a second tranche ($5.0 million) for the private Agro-Industrial and Export Bank (BANEX) to be authorized in FY 1981 as well as assistance for new and ongoing grants. For FY 1983 under this option we propose to broaden the Cooperative Development Loan scheduled for authorization in FY 1982 to include the establishment of a special program with the Costa Rican Industrial Finance Corporation (COFISA) and the Cooperative Development Institute (INFOCOOP) to finance import and credit needs for cooperatives and private manufacturing, agribusiness, and export ventures. We would also use our limited grant resources to support ongoing and new projects, including OPGs and family planning. These activities are essential complements to our balance of payments and private sector support objectives and are aimed at supporting administrative reform, increasing the effectiveness of family planning programs, and encouraging voluntary participation in development.

This approach is consistent with our emphasis on maintaining credit and productivity of the private sector and reducing the financial burden on the GOCR during a period of financial austerity. Nevertheless, the Mission reiterates that the DA package alone is insufficient and incompatible with Costa Rica's need for U.S. support to deal effectively with extremely serious social and economic problems. The full package is needed if we are not to miss a critical point in Costa Rica's development. Under those circumstances, larger amounts of aid may be required later to fend off an economic and political disaster.

The reduction in US workforce to 16 manyears is totally unrealistic given our current project portfolio, to say nothing of the increased demands of putting a new program strategy into effect. While we show the AID/W reduced figure in Tables I and VIII, we explain why it is unacceptable in the Table V narrative section.

Part II - Implementation Problems

As of March 30, 1981, the Mission's current loan and grant portfolio totalled $39.7 million, with the loan disbursements averaging $218,160 on a monthly basis during the first six months of FY 1981. We anticipate substantial progress and a higher rate of disbursement in the near future when implementation of two loans recently approved by the Legislative Assembly, Natural Resources Conservation and Agrarian Settlement and Productivity, begins.

Slow and troubled project implementation is a matter of concern to the Mission. More effective project implementation of just our ongoing portfolio would help the GOCR to continue credit, training and technical assistance programs which benefit low-income groups during the current period of financial austerity. It would also maintain some momentum in testing innovative, cost-effective solutions to longstanding productivity, natural resource management, energy development, asset distribution, and technology development problems which continue to impede this country's transition to a new growth and development strategy.

The mixed progress which has been achieved in project implementation in Costa Rica is traceable to several interrelated factors: The institutional/legal structures of the GOCR, the financial austerity conditions under which the GOCR is operating, and the political factors currently at play in this country.

The proliferation of GOCR developmental institutions with conflicting and overlapping responsibilities for program planning and execution complicates project design and has hindered project implementation. In the past, this has meant that the Mission has had to put together multi-faceted, broad coverage projects with different sub-activities carried out by each participating entity. Unfortunately, the establishment of effective coordinating mechanisms among these implementing agencies --although required in the loan agreements--has been slow and difficult. The result has been that major activities often fall behind schedule and have to be adjusted and reprogrammed to fit changed circumstances.

Project coordination and execution is made doubly difficult by two other related factors. One is the frequent GOCR personnel transfers among ministries, departments and divisions. GOCR officials at the operational level often lack an effective knowledge of both their own government's and AID's contracting, procurement and disbursement procedures. The transfers make it difficult for counterpart personnel to acquire that knowledge. But even if personnel transfers did not occur frequently, putting that knowledge to practice would not be easy.

In an effort to minimize corruption and ensure fair competition, Costa Rican law imposes a complex and confusing array of administrative procedures and regulations on the procurement of goods and services. These are similar but in many respects more rigid than AID's own regulations. For example, any purchase over $2,000 requires approval from at least five different institutions and a minimum of 21 weeks to process. In practical terms, this lengthy process, which is mandatory under the GOCR's Ley Financiera, makes project implementation cumbersome and slow.

More recently, the current economic crisis has forced the GOCR to impose a a hiring freeze and restrict travel and commodity purchases. While these financial austerity measures are necessary and important steps in the GOCR's overall effort to control and reduce public sector spending, they are adversely affecting project implementation.

Finally, the political deadlock in Costa Rica's National Assembly has led to very long delays in legislative ratification of project agreements. Those delays have had serious consequences on our more recent projects: momentum is frequently lost; personnel transfers take place; GOCR priorities shift to accomodate new, urgent concerns; and cost estimates, budgets and schedules must be revised to reflect the new environment in which the projects must operate.

To overcome these obstacles, USAID/Costa Rica has done a number of things. New projects have been designed to be carried out by one or two key institutions in a particular sector, rather than involving several separate entities in a single program. The recently approved Agrarian Settlement and Productivity Loan, the proposed Energy Development Grant, and the proposed Private Sector Productivity Loan are examples of this approach. Furthermore, frequent, regularly scheduled joint working sessions are held with key GOCR implementation personnel for loans in the areas of science and technology and natural resources. During these sessions, budgets, plans and schedules are revised as necessary to ensure realistic and rapid implementation. We arranged to have a very capable, decisive and effective GOCR official appointed as overall coordinator for all AID-GOCR projects. She reports directly to the First Vice President.

In addition, the Mission has used Project Development and Support funds (PD&S) to provide short-term advisory services to GOCR agencies at the pre-implementation phase (Natural Resources Conservation, for example);to support studies leading to the improvement of the analytical, planning and evaluation capabilities of GOCR implementing agencies; and to finance short-term orientation travel for personnel with key roles in the implementation process.

Other Mission efforts have been undertaken to overcome the implementation bottlenecks described above. For example, several briefings and short courses have been held on AID's procurement/ contracting procedures, and studies on GOCR procurement and financial disbursement systems have been undertaken. In addition, various in-house reviews, studies or evaluations have been conducted to measure the progress of our program and identify suitable components for reprogramming. Also, on numerous occasions, implementation problems and possible solutions have been discussed with GOCR officials at the highest levels (including the President). An illustration of this effort is that the GOCR has been encouraged to establish imprest funds to help accelerate credit programs.

The Mission will continue to review, evaluate, test and refine different approaches to project implementation. Our objective will be to strengthen and improve the efficiency of our implementation efforts. For example, we will use the results of the upcoming evaluation of the Nutrition Loan, now scheduled for September 1981, to help the GOCR reprogram and reallocate budget resources to the most effective components of the project. A similar exercise is underway for the Urban Loan.

Part III - Forward Funding

Application of the forward funding guidelines (full funding for new projects, especially pilot and small projects; and forward funding for ongoing projects to be completed in FY 1982 and FY 1983) is not feasible for USAID/Costa Rica's program. In order to implement these guidelines the Mission would need a DA level of $9.4 million in FY 1982 and an FY 1983 AAPL level of $10.4 million, not counting ESF. These levels are contrary to the ABS guidelines which require that the FY 1982 level be no more than 10% higher than the FY 1982 CP and that the AAPL be strictly observed. This being the case, a budget based on use of the forward funding guidelines becomes an artificial exercise. Therefore, we request that the Mission be granted exceptions to the forward funding guidelines for the following activities: (See Table IV for proposed annual obligations levels.)

Project Number	Title	Years to be Covered by the Exception
515-0162	Environmental Education II	FY 1982
515-0177	Development Administration and Financial Planning	FY 1982
515-0179	Energy Policy Development	FY 1982
515-0185	Economic Stabilization and Recovery	FY 1982
515-9997	Proposed OPGs	FY 1983

TABLE III - PROJECT OBLIGATIONS BY APPROPRIATION ACCOUNT
FY 1981 to FY 1983
($ thousands)

Country/Office USAID/Costa Rica

APPROPRIATION ACCOUNT	FY 1981	FY 1982	FISCAL YEAR 1983 MINIMUM	CURRENT	AAPL
AGRICULTURE RURAL DEVELOPMENT AND NUTRITION					
0000 PD & S (G)	136	275	200	300	300
0127 CARE Soybean Production (OPG)	48	-	-	-	-
0146 Rural Credit (OPG)	105	-	-	-	-
0148 Agrarian Settlement and Productivity (G/L)	200	-	-	-	-
0158 Integral Rural Development II (OPG)	290	-	-	-	-
0162 Environmental Education II (OPG)	100	180	100	100	100
0180 Campesino Union Strengthening and Credit (OPG)	300	200	-	-	-
9997 Proposed OPGs (OPG)	-	-	-	250	250
Sub-Total	1,179	655	300	650	650
POPULATION PLANNING					
0000 PD & S (G)	10	35	25	25	25
0132 Family Planning Services (G)	343	345	-	-	-
0168 Family Planning Services II (G)	-	-	350	450	450
Sub-Total	353	380	375	475	475
HEALTH	-	-	-	-	-
EDUCATION AND HUMAN RESOURCES DEVELOPMENT					
0000 PD & S (G)	10	40	25	25	25
0177 Administrative Reform and Financial Management (G)	-	550	350	550	550
9997 Proposed OPGs (OPG)	-	-	-	200	200
Sub-Total	10	590	375	775	775

TABLE III - PROJECT OBLIGATIONS BY APPROPRIATION ACCOUNT
FY 1981 to FY 1983
($ thousands)

Country/Office ______ USAID/Costa Rica

APPROPRIATION ACCOUNT	FY 1981	FY 1982	FISCAL YEAR 1983		
			MINIMUM	CURRENT	AAPL
SELECTED DEVELOPMENT ACTIVITIES					
0000 PD & S (G)	76	175	150	200	200
0007 Costa Rica Shelter Development I (G)	-	300	-	-	-
0133 Special Development Activity (G)	100	200	200	200	200
0174 Energy Policy Development (G)	300	500	200	200	200
0176 Private Sector Productivity (L)	5,000	5,000	-	-	-
0178 Private Sector Assistance (G/L)	-	-	7,400	6,500	6,500
Sub-Total	5,476	6,175	7,950	7,100	7,100
OVERALL DA TOTAL	7,018	7,800	9,000	9,000	9,000
ESF					
0185 Economic Stabilization and Recovery	-	25,000	5,000	18,000	35,000
HG					
0007 Costa Rica Shelter Development I (HG)	-	20,000	-	-	-
PL 480 TITLE I	-	10,000	10,000	15,000	15,000
PL 480 TITLE II					
DESAF Feeding Program	2,000	1,410	2,410	2,410	2,410
OVERALL TOTAL	9,018	64,210	26,410	44,410	61,410
OVERALL TOTAL WITHOUT ESF	9,018	39,210	21,410	26,410	26,410

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE IV PROJECT BUDGET DATA

Country/Office: USAID/Costa Rica

ESTIMATED U.S. DOLLAR COST ($000)

PROJECT NUMBER	PROJECT TITLE	G/L	OBLIGATION DATE INITIAL	OBLIGATION DATE FINAL	LIFE OF PROJECT COST AUTH	LIFE OF PROJECT COST PLAN	CUM PIPELINE AS OF 9/30/80	FY 1981 OBL	FY 1981 EXP	FY 1982 OBL	FY 1982 EXP	FY OBLIGATIONS 1983 AAPL	1984	1985	1986	1987	FUTURE YEAR	ITEM #
	AGRICULTURE, RURAL DEVELOPMENT AND NUTRITION																	
515-0000	PD&S	G	NA	Cont.	NA	Same	57	136	76	275	225	300	245	265	295	324	Cont.	903
515-0120	Rural Development	L	75	75	7900	7835	64	-	64	-		-	-	-	-	-	-	428
515-0121	Nutrition Program	L	76	76	[illegible]000	Same	2,245	-	1,184	-	1,061	-	-	-	-	-	-	425
515-0127	CARE Soybean Production	OPG	76	81	500	499	31	48	37	-	42	-	-	-	-	-	-	900
515-0134	Commodity Systems	L	77	77	5500	Same	5,276	-	324	-	500	-	-	-	-	-	-	427
515-0142	Environmental Education	OPG	78	78	240	Same	29	-	15	-	-	-	-	-	-	-	-	-
515-0145	Natural Resources Conservation	L	79	80	3000	Same	8,000	-	300	-	1,500	-	-	-	-	-	-	893
515-0146	Rural Credit	OPG	78	81	490	Same	41	105	46	-	100	-	-	-	-	-	-	891
515-0148	Agrarian Settlement and Productivity	L/G	80	81	10000	Same	9,800	200	30	-	2,100	-	-	-	-	-	-	090
515-0158	Integral Rural Development II	OPG	79	81	490	Same	103	290	100	-	293	-	-	-	-	-	-	780
515-0162	Environmental Education II	OPG	80	83	480	Same	100	100	70	180	220	100	-	-	-	-	-	889
515-0180	Campesino Union Strengthening and Credit	OPG	81	83	-	500	-	300	20	200	250	-	-	-	-	-	-	-

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TABLE IV PROJECT BUDGET DATA

Country/Office USAID/Costa Rica

PROJECT NUMBER	PROJECT TITLE	G/L	OBLIGATION DATE INITIAL	OBLIGATION DATE FINAL	LIFE OF PROJECT COST AUTH	LIFE OF PROJECT COST PLAN	CUM PIPELINE AS OF 9/30/80	FY 1981 OBL	FY 1981 EXP	FY 1982 OBL	FY 1982 EXP	FY OBLIGATIONS 1983 AAPL	1984	1985	1986	1987	FUTURE YEAR	ITEM #
515-0181	Natural Resources Management	L/G	86	86	-	8400	-	-	-	-	-	-	-	-	8,400	-	-	-
515-0182	Agro-Industrial Export Promotion and Credit	L/G	84	84	-	11000	-	-	-	-	-	-	-	9,000	2,000	-	-	-
515-9997	Proposed OPGs	OPG	83	Cont.	-	1650	-	-	-	-	-	250	300	300	300	300	200	-
	Sub-Total							1,179	2,266	655	6,291	650	545	9,565	10,995	624	200	-
	POPULATION PLANNING																	
515-0000	PD & S	G	NA	Cont.	NA	NA	59	10	49	35	45	25	20	20	20	26	Cont.	902
515-0132	Family Planning Services	G	76	81	1247	1935	235	343	235	345	450	-	-	-	-	-	-	899
515-0168	Family Planning Services II	G	83	87	-	2050	-	-	-	-	-	450	450	400	450	300	-	-
	Sub-Total							353	284	380	495	475	470	420	470	326	-	-
	HEALTH	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	EDUCATION AND HUMAN RESOURCES DEVELOPMENT																	
515-0000	PD & S	G	NA	Cont.	NA	NA	13	10	13	40	30	25	25	35	25	25	Cont.	904
515-0138	Science and Technology	L	79	79	2000	Same	2,000	-	100	-	400	-	-	-	-	-	-	897
515-0160	Special Education	OPG	80	80	29	Same	29	-	5	-	24	-	-	-	-	-	-	314

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TABLE IV PROJECT BUDGET DATA

Country/Office: USAID/Costa Rica

ESTIMATED U.S. DOLLAR COST ($000)

PROJECT NUMBER	PROJECT TITLE	G/L	OBLIGATION DATE INITIAL	OBLIGATION DATE FINAL	LIFE OF PROJECT COST AUTH	LIFE OF PROJECT COST PLAN	CUM PIPELINE AS OF 9/30/80	FY 1981 OBL	FY 1981 EXP	FY 1982 OBL	FY 1982 EXP	FY OBLIGATIONS 1983 AAPL	1984	1985	1986	1987	FUTURE YEAR	ITEM #
515-0177	Administrative Reform and Financial Management	G	82	85	-	1875	-	-		550	-	550	535	240	-	-	-	-
515-9997	Proposed OPGs	OPG	83	85	-	740	-	-	-	-	-	200	300	240	-	-	-	422
	Sub-Total							10	118	590	454	775	860	515	25	25		
	SELECTED DEVELOPMENT ACTIVITIES																	
515-0000	PD & S	G	NA	Cont.	NA	NA	43	76	110	175	156	200	225	200	210	225	Cont.	901
515-0007	Costa Rica Shelter Development I	G	82	84	-	500	-	-	-	300	150	-	200	-	-	-	-	-
515-0130	Urban Employment and Community Improvement	L	78	78	5500	Same	5,193	-	695	-	856	-	-	-	-	-	-	421
515-0133	Special Development Activity	G	77	Cont.	NA	NA	49	100	66	200	178	200	300	300	300	300	Cont.	898
515-0138	Science and Technology	L	79	79	2500	Same	Same	-	290	-	560	-	-	-	-	-	-	896
515-0139	National Development Information System*	L/G	79	79	3500	Same	Same	-	-	-	-	-	-	-	-	-	-	894
515-0145	Natural Resources Conservation	L	79	79	1800	Same	Same	-	100	-	400	-	-	-	-	-	-	892
515-0174	Energy Policy Development	G	81	82	-	1000	-	300	-	500	250	200	-	-	-	-	-	887

*Funds deobligated on May 21, 1981

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE IV PROJECT BUDGET DATA

Country/Office USAID/Costa Rica

PROJECT NUMBER	PROJECT TITLE	G/L	OBLIGATION DATE INITIAL	OBLIGATION DATE FINAL	LIFE OF PROJECT COST AUTH	LIFE OF PROJECT COST PLAN	ESTIMATED U.S. DOLLAR COST ($000) CUM PIPELINE AS OF 9/30/80	FY 1981 OBL	FY 1981 EXP	FY 1982 OBL	FY 1982 EXP	FY OBLIGATIONS 1983 AAPL	1984	1985	1986	1987	FUTURE YEAR	ITEM #
515-0176	Private Sector Productivity	L	81	82	-	10000	-	5,000	-	5,000	2,600	-	-	-	-	-	-	866
515-0178	Private Sector Assistance	L	83	83	-	6500	-	-	-	-	-	6,500	-	-	-	-	-	423
515-0179	Energy Development	L/G	84	84	-	7400	-	-	-	-	-	-	7,400	-	-	-	-	-
515-0183	Developing and Upgrading Secondary Cities	L/G	87	87	-	6500	-	-	-	-	-	-	-	-	-	6,500		-
515-0184	Agro-Industrial Applications of Science and Technology	L/G	87	87	-	5000	-	-	-	-	-	-	-	-	-	5,000		
	Sub-Total							5,476	1,261	6,175	5,150	7,100	8,125	500	510	12,025		
	TOTAL ALL DA FUNCTIONAL ACCOUNTS							7,518	3,929	7,800	12,390	9,000	10,000	11,000	12,000	13,000		
	Grants							2,518	872	2,800	2,413	2,500	2,700	2,000	3,600	1,500		
	Loans							5,000	3,057	5,000	9,977	6,500	7,400	9,000	8,400	11,500		
	ESF																	
515-0185	Economic Stabilization and Recovery	L	82	83	-	60000	-	-	-	25,000	12,500	35,000	-	-	-	-	-	-

PROJECT TITLE:	Costa Rica Shelter Development I	
PROJECT NUMBER:	515-0007	
PROPOSED FUNDING:	FY 1982 -	\$20,000,000 HG 300,000 G
	FY 1984 -	\$20,000,000 HG 200,000 G
	LIFE OF PROJECT:	\$40,500,000
FUNCTIONAL ACCOUNT:	SD	

PURPOSE:

To support a sustained increase in the level of production of basic shelter projects in urban areas of Costa Rica by strengthening the housing finance system; developing more active private sector involvement in the construction and financing of basic shelter projects; and financing basic shelter projects in secondary cities.

DESCRIPTION OF THE PROBLEM AND PROPOSED SOLUTION:

The range of existing problems affecting Costa Rica's shelter sector is typical of developing countries. For example, between 30 and 50% of existing houses lack basic services and need repair and expansion, or both. Construction of new shelter falls about 20% short of the level necessary to meet the needs of new households formed each year. The gaps are greater for lower income households.

Costa Rica can make important strides toward the resolution of these problems. Housing studies conducted over the last four years have all indicated that the country can move closer to the required level of investment in shelter. The GOCR has accepted the concept of producing minimum shelter, such as sites and services, for the poorest families. The basic institutional capability exists, particularly if both private and public sector participate.

Obstacles to overcome are the following :

- failure to allocate investment in housing based on predetermined priorities, particularly to address the more urgent needs of poorer families;
- lack of coherence in the investment policies followed by the various housing finance institutions;
- limited attention to the need to expand the housing production capability in secondary cities; and,
- limited participation by private sector institutions in constructing, financing and administering basic shelter projects for the poor.

This Project will address these problems by funding studies on new procedures for better coordinating the housing finance system, designing mechanisms to implement projects in smaller cities, and developing incentives and guaranties to ensure private sector involvement in basic shelter. Further, the project will provide the initial funding for an expanded investment in basic shelter solutions.

It is expected that the project will result in the following:

- a process to define investment goals in basic shelter in urban areas of Costa Rica;

- a mechanism created to allocate at least part of the resources available for investment in shelter based on those goals;

- a mechanism and process developed to identify and address major conflicts in investment policies of housing finance institutions (interest rate, loan term, ceilings);

- procedures designed and implemented for carrying out large- scale basic shelter projects in secondary cities;

- private sector participation in construction and financing of basic shelter projects; and,

- approximately 8,000 units built and delivered.

COUNTERPART INSTITUTIONS:

The Ministry of Housing and Human Settlements will be the counterpart institution for the grant-funded studies. The project design will seek to assign HG funding to the most efficient public or private institutions, that is, those first able to produce basic shelter projects.

TARGET GROUP:

The project beneficiaries will include residents of all urban areas in Costa Rica. The target group will include those low-income residents who are affected by the shelter problems described previously, perhaps as much as two-thirds of the urban population.

RELATED ONGOING ACTIVITIES:

The Urban Employment and Community Improvement Project is using HG resources to finance several large scale sites and services projects in the San José Metropolitan Area. Construction on the first site began in April, 1981. Work on the remaining sites will begin within this calendar year. Initial GOCR reluctance to develop such minimum cost shelter has been largely overcome. This new activity will build on that growing commitment.

ISSUES:

Will the terms and conditions of the HG program be sufficiently attractive financially to induce the private sector to participate in the program? If so, how much will it commit in the way of finances and other sources to this activity?

PROJECT TITLE:	Family Planning Services II
PROJECT NUMBER:	515-0168
PROPOSED FUNDING:	FY 1982 - -0- FY 1983 - $ 450,000 G
	LIFE OF PROJECT: $2,050,000
FUNCTIONAL ACCOUNT:	PN

PURPOSE:

To improve the effectiveness of Costa Rica's national family planning activities, both public and private, through a comprehensive program involving education, motivation, information, demographic studies, commodity distribution, and training for community-level health workers.

DESCRIPTION OF THE PROBLEM AND PROPOSED SOLUTION

Changes in Costa Rica's economy and society since 1950, such as better education and higher per capita income, have created increased demand from women in all sectors of society for family planning services. This led to a steady decrease in the country's population growth rate from 3.9% in 1960 to 2.4% in 1973, a drop that is virtually unparalleled in Latin America. Due to an equally dramatic drop in the death rate and a general increase in the number of females in their reproductive years, however, the population growth rate moved up to 2.8% in 1978. Nevertheless, this trend is viewed as transitory. Because of the comparatively high education levels of the population, relatively equitable pattern of income distribution and the widespread availability of health facilities and services, population growth rates in Costa Rica are expected to decline over the next several years.

The GOCR's national population policy--defined during 1979 by the National Population Commission--stresses the individual's right to decide freely and responsibly on the number and spacing of children and to have access to family planning information and services, except for abortion and sterilization.

Family planning services are available at health posts and clinics. Contraceptives are sold at commercial outlets throughout the country. The GOCR is not, however, actively encouraging family planning practices.

This proposed project would contribute to the projected decline in the birth rate by extending low-cost services to a wide socio-economic spectrum and to the poorest areas of the country in an effort to bring more fertile-aged women under the coverage of the national family planning program. It would include 1) training community outreach workers as family planning motivators, especially for rural health posts; 2) promoting information, education and communication (IE&C) motivational programs which focus on the need for sex education and address the problems of adolescent fertility; 3) ensuring the availability of contraceptive supplies throughout the country at little or no cost to each acceptor; 4) making contraceptives and motivational training available, where feasible, to factory clinics, cooperatives, trade unions, and other private entities which request these services; and 5) funding research which seeks to explain past and current demographic trends and their effects on Costa Rica's development and the well-being of its population.

USAID funding of $2,050,000 between FY 1983-1987 would cover technical assistance, local salaries, training, commodities and other costs. Costa Rican inputs would be approximately $2 million per year, with other donors contributing an additional $1.5 million per year over the life of the project.

The proposed outputs of the project include: 1) community outreach workers trained as family planning motivators; 2) Information/motivation programs and courses designed and being provided to various socio-economic and age groups; 3) demographic studies/surveys completed and being used, particularly by OFIPLAN, to take into account the impact of population growth trends on Costa Rica's future development; and 4) 60,000 new, continuous acceptors of FP services.

The National Population Committee, made up of several public and private institutions, including the National Planning Office (OFIPLAN), will have major responsibility for the implementation of the project. This project will address the expressed priorities of a new GOCR administration to be elected in February and in power by May of 1982. Thus, we expect increased collaboration and a higher level of demand for assistance in this field.

TARGET GROUP:

Because approximately 60% of the females of reproductive age are already practicing effective methods of contraception, this project is part of a broad effort to extend coverage to the exposed poor urban and rural women who cannot afford to obtain reliable family planning services on a regular basis from private sources. By reaching approximately 15,000 new continuous acceptors each year for a total of 60,000 by the end of the project, this activity will provide 65% of the exposed females with effective methods of contraception. In addition, the project will reach 80% of the population of reproductive age with information, education and communication activities.

RELATED ONGOING ACTIVITIES:

The new GOCR administration is expected to request from the United Nations Fund for Population Activities a contribution of approximately $3.5 million for family planning activities in Costa Rica between 1982-1986. The GOCR and private entities working in the area of family planning (such as the Center for Family Orientation and the Center for Family Integration) are expected to contribute $1.0 million, or almost 50% of the total cost of implementing this activity.

ISSUES:

USAID/CR plans to develop this project in close collaboration with the new GOCR administration after May 1982. We expect this new administration to have a clear idea of its priorities for population programs, thus allowing us to prepare a project which will not face the constraints encountered by the current population project (515-0132). With a project tailored to the new government's concerns, we also expect to support an expanded, more effective population program. Are these assumptions correct?

PROJECT TITLE:	Administrative Reform and Financial Management	
PROJECT NUMBER:	515-0177	
PROPOSED FUNDING:	FY 1982 -	$ 550,000 G
	FY 1983 -	$ 550,000 G
	LIFE OF PROJECT:	$1,875,000
FUNCTIONAL ACCOUNT:	EH	

PURPOSE:

To improve the efficiency of the Costa Rican Social Security Administration (CCSS) and reduce the costs of its operations through the development and establishment of modern, integrated administrative and financial management systems.

DESCRIPTION OF THE PROBLEM AND PROPOSED SOLUTION:

The CCSS was created in 1941 and operates two programs: the health-care program (sickness, maternity) and the pension program (disability, old-age, death). The CCSS has autonomy in determining social security taxes and benefits and does not fall under the control of the Executive or the Legislative branches. The CCSS has a mandate to provide universal social security and health benefits. The Government is required to finance any deficits. The Government is also expected to contribute financially to the CCSS in its capacity as an employer. Generally, however, the Central Government has failed to meet its financial obligations to the CCSS and instead has accumulated a floating debt, periodically consolidated through bond issues.

The failure of the Central Government to make its full financial contribution had, until recently, not created a serious financial problem for the CCSS because deficits in the health care program were more than compensated for by surpluses in the old-age pension program. However, current spending growth has exceeded current revenue growth continuously since 1975, so that by 1979 the CCSS had a total consolidated debt of almost 300 million colons. The incorporation of all hospitals into the system which began in 1974 and was completed in 1976 essentially lies behind these trends.(Only four hospitals operate independently in the country: four private and one public experimental "hospital without walls."). Moreover, the worsening financial position occured during a "favorable" period when there has been a considerable extension of coverage of the old-age insurance program: as most new entrants have been young, the extension in coverage has resulted in larger revenues than drawings. More recently, the deteriorating economic situation of the country is threatening the CCSS's capacity to deliver services. Costs of medical supplies, especially imported commodities, are rising due to the devaluation and inflation rates; pressures for higher salaries for its 21,500 employees are growing; and demand for medical care by the unemployed, who are covered for three months after leaving a job, is rising as unemployment rates go up. The universalization of coverage through individual membership plans and indigent acceptance has also increased costs. Unless remedial action is taken, the deteriorating financial situation of the CCSS, which has reached deeply into rural areas and is the source of health care for the majority of the population, will worsen drastically in the near future.

There is much room for improving the administrative and financial management capacity of the CCSS and, hence, to make its operations more cost-effective, so that it can maintain existing levels of services. At present, the overall administration of the medical care program is hampered by diverse practices which are hold-overs from previous institutions prior to their transfer to the CCSS: The procurement, distribution and control of supplies are inadequate, resulting in apharmacopeia that is excessive in the number of drugs carried, erratic inventory levels, and the use of expensive or unnecessary medical commodities when less costly substitutes are available. In addition, the lack of a well-functioning information system complicates the planning, evaluation and decision-making.

This project will provide grant resources to help identify ways in which the CCSS, whose total spending in 1979 was equivalent to approximately 7% of GDP, can reduce its costs and improve its efficiency. Initially, technical assistance will be provided to undertake a comprehensive analysis and assessment of the CCSS system. The findings of that assessment will form the basis for developing and implementing modern administrative and financial management systems supported by a computerized information component. A management training component will also be developed to train essential administration personnel in the use of the new systems. In addition, specific cost-reducing alternatives will be identified and put in place, e.g., streamlining the CCSS's pharmacopoeia, charging a nominal fee for out-patient services to lower the incidence of unnecesssary medical consultations.

In brief, by carrying out this project, USAID/Costa Rica will be assisting the GOCR maintain its equity concerns by shifting to new, more cost-effective methods of providing the same level of essential social services to the population. Because the uncontrolled growth of the public sector has contributed to the current economic crisis, the GOCR and the International Monetary Fund have agreed to stringent limits on domestic and foreign credit to the public sector in order to rationalize the Government's consumption patterns. This project is wholly consistent with those efforts: an administrative/financial reform of the CCSS, which has the largest budget of the autonomous public service agencies, will contribute greatly to the rational use of scarce resources and, hence, to the financial austerity of the Government and the economic stability of the country.

COUNTERPART INSTITUTIONS:

The Costa Rican Social Security Administration will execute this project.

TARGET GROUP:

All sectors of society will benefit from this project: the CCSS and its administrators will be able to continue to provide the services required under the CCSS mandate; the State will benefit from not having to compensate the CCSS for its operating deficits; and the population as a whole will continue to have access to adequate medical care and pension programs.

ISSUES:

1. Given the financial austerity the GOCR must adhere to under its agreement with the International Monetary Fund, will it be able to meet its financial obligations to the CCSS to carry-out the reforms contemplated under this four-year project?

2. Given the economic situation of the country, and in particular the devaluation and rising inflation, the CCSS's financial situation (before the project reforms are completed) may prevent its purchasing essential but relatively costly medical supplies, especially those that have to be imported. What options exist to help prevent such an occurrence?

3. In recent years AID has stayed away from hospital-based delivery of health care, seeing it as too expensive and not likely to reach the target groups of the poor. Costa Rica's widespread system of hospitals and clinics does reach the poor, but at a cost the country can no longer afford. In this sense, the CCSS reflects a fundamental development problem facing Costa Rica now and probably other countries in the future. The challenge is to make the extensive existing system more cost-effective through administrative reform. Can AID support this program?

PROJECT TITLE:	Private Sector Assistance
PROJECT NUMBER:	515-0178
PROPOSED FUNDING:	FY 1982 - -0- FY 1983 - $6,000,000 L 500,000 G
	LIFE OF PROJECT: $6,500,000
FUNCTIONAL ACCOUNT:	SD

PURPOSE:

To improve the standard of living of cooperative members, small producers and manufacturers and their employees through an integrated program of technological, managerial and credit assistance.

DESCRIPTION OF THE PROBLEM AND PROPOSED SOLUTION:

As indicated in the economic analysis section of the most recent CDSS, Costa Rica's private sector has been severely handicapped by the country's steadily worsening economic situation. Both cooperative organizations and private producers/manufacturers are experiencing the effects of scarce credit, rampant inflation, devaluating currency, lack of reasonably priced raw materials and rapidly diminishing domestic and traditional markets. (See FY 1983 CDSS; Private Sector Productivity PID, and Table I narrative for details.)

To augment the resources available to the private sector, this project will work with the National Institute for Cooperative Development (INFOCOOP) and its member cooperatives, and the Costa Rican Industrial Finance Corporation (COFISA) to develop specifically designed programs of credit, technological and management assistance for private productive activities. These programs will be tailored to respond comprehensively to the specific needs of each participating firm or cooperative. Programs will include:

- generic managerial assistance in areas of accounting, inventory control, procurement, marketing, personnel management, community organization and others;

- specific technological assistance, in areas such as new product development, production and processing standards, plant layout, production methodology and others; and

- specifically designed credit packages to meet the unique needs of each subborrower, i.e., export credit, supplier credit, working capital.

The programs will be developed so as to provide integrated service responses to the complex problem being faced by the producers, manufacturers and cooperative groups.

COUNTERPART INSTITUTIONS:

Among the possible cooperating institutions are INFOCOOP, COFISA and the Agro-Industrial and Export Bank (BANEX).

TARGET GROUP:

The ultimate project beneficiaries will be Costa Rica's working (and potentially working) poor who depend on cooperative organizations and small producers and manufacturers for income and services.

RELATED ONGOING ACTIVITIES:

This project will use as its development and operational basis existing AID and GOCR endeavors. These include the Agrarian settlement and Productivity Project, the Urban Employment and Community Improvement Project, and the proposed Private Sector Productivity Project.

ISSUES:

1. Will the private sector be able to provide counterpart funds for this activity under current economic conditions?

2. In view of the everchanging GOCR economic policy environment, what are the appropriate mechanisms for coordination among the participating entities?

PROJECT TITLE:	Economic Stabilization and Recovery
PROJECT NUMBER:	515-0185
PROPOSED FUNDING:	FY 1982 - $25,000,000 L FY 1983 - $35,000,000 L
	LIFE OF PROJECT: $60,000,000
FUNCTIONAL ACCOUNT:	Economic Support Fund

PURPOSE:

To encourage the GOCR to meet the targets established in the pending IMF agreement by providing much needed financial resources to reduce its enormous balance of payments deficit and thereby softening the social impact of the austerity and other necessary structural adjustment measures.

DESCRIPITION OF THE PROBLEM AND PROPOSED SOLUTION:

As analyzed in the Mission's recent CDSS, Costa Rica's economy is in serious disequilibrium. Real gross national income declined by 2.2% per capita in 1978, by 4.6% in 1979, and probably fell more sharply in 1980. As is further pointed out in Part I of the Table I narrative of this submission, the crisis has become more acute since the preparation of the CDSS. In a short span of time (less than one year) the country has suffered a severe devaluation, escalating inflation, rising unemployment, and deteriorating terms of trade.

As a result of the devaluation and the closing off of commercial credit lines, imports during the first quarter of 1981 dropped below projections made late last year. During 1981 a contraction of imports of at least 25% now appears inevitable, and because of the import intensity of Costa Rica's economy, a contraction of that magnitude will result in a sharply declining GDP, rising unemployment and a growing probability of social unrest. The drop could be as large as to 10% to 15% on a real per capita basis and perhaps even larger. Without substantial external assistance, Costa Rica's prospects for resuming economic growth in the medium-term are virtually non-existent.

To reverse the present course of the economy, the GOCR negotiated and signed on June 17, 1981 for an Extended Financing Facility with the International Monetary Fund. The IMF agreement, which will make available 276.8 million SDRs (approximately $330 million) over the next three years will support the GOCR's efforts to readjust the country's economic structures. Other donors, especially the World Bank, are looking to the GOCR-IMF agreement as a means of providing additional aid to help the GOCR reorient the economy within a framework consistent with the agreement.

The Mission considers it vital that AID join in this concerted action. Because speed is of the essence, the Mission believes a Cash Transfer would be a more appropriate device than a Commodity Import Program to contribute to the stabilization and recovery of Costa Rica's economy. The Mission proposes authorization in FY 1982 of a $60 million

Cash Transfer loan . The GOCR would commit itself to using the dollar resources to maintain production, employment levels and essential service programs during the impending period of austerity and depressed economic conditions.

The loan would be conditioned upon the GOCR's compliance with the measures required under the IMF agreement, and the timing of disbursements would depend on the GOCR's meeting the targets prescribed in the IMF agreement. The first tranche of $25 million, to be obligated in FY 1982, would be released in semiannual disbursements of $12.5 million each. An additional $35 million would be obligated in FY 1983 and would follow a similar disbursement schedule. Our current thinking is to require that the GOCR agree to import from the U.S., within a period of one year, machinery, equipment and inputs equivalent to the value of the loan to help maintain productivity in the private sector and to stimulate exports. The GOCR would also agree to deposit an amount of colons equivalent to the dollar loan in a special account. These funds would be used primarily to finance credit needs of the private sector and cooperatives engaged in employment-generating, productive activities, especially export ventures,and to stimulate agricultural production activities. During the project design period and prior to disbursment the Mission would work with the GOCR in defining precise criteria and areas for use of local currency generations.

COUNTERPART INSTITUTIONS:

The GOCR's Central Bank will execute this program, in close coordination with the Ministry of Finance.

TARGET GROUP:

The ultimate beneficiaries will be all Costa Ricans, especially the poorest population groups who rely on a dynamic economy for jobs and who are in the worst position to deal with an annual inflation rate of at least 40% combined with cutbacks in essential government services.

RELATED ACTIVITIES:

The proposed Title I program will help support the GOCR's efforts to carry out a Structural Adjustment Program by helping Costa Rica maintain essential food import levels.

ISSUES:

1. Is a Cash Transfer a more responsive mechanism to Costa Rica's economic circumstances than a Commodity Import Program?

2. The program will probably require ratification by the Costa Rican Legislative Assembly. Can this be obtained quickly enough to have the desired macroeconomic effect?

3. What back-up actions will the Mission pursue in case the GOCR fails to meet the IMF agreement targets?

PROJECT TITLE:	Proposed OPGs
PROJECT NUMBER:	515-9997
PROPOSED FUNDING	FY 1982 -0- FY 1983 $ 450,000 G
	LIFE OF PROJECT: $2,390,000
FUNCTIONAL ACCOUNT(s):	FN/EH

PURPOSE:

To support developmental initiatives of Private Voluntary Organizations (PVOs) operating in Costa Rica. This project is principally aimed at assisting poor population groups, particularly in rural areas, to increase their productivity and income levels through greater access to productive resources, technical assistance and/or job skills training.

DESCRIPTION OF THE PROBLEM AND PROPOSED SOLUTION:

Costa Rica has approximately 250 active PVOs ranging from informal, unstructured associations that engage in limited coverage, conventional, social welfare activities to long-established, broad-based organizations which carry out a variety of development-related programs involving orientation and training for poor women, rural improvement and development, non-formal education, organization of worker productive units, etc.

The majority of PVOs rely on foundations, foreign assistance agencies, special grants from the GOCR, private contributions, as well as their own fund-raising activities for financing to carry out their activities. In FY 1981 USAID/Costa Rica provided $543,000 to support PVO initiatives in areas related to rural credit and development, natural resource protection and environmental education, soybean production and processing, and special education for the handicapped poor. At present, the Mission is considering a request to strengthen a union of small farmers through credit and marketing assistance.

Opportunities to contribute to the development of Costa Rica through PVOs offer much potential. In the past the majority of PVO activities concentrated on supplementing governmental programs to marginal barrios of San José. In more recent years, however, PVOs have begun to venture outside the capital and, as a result, are gaining valuable experience in reaching the poor in rural areas and secondary cities, especially the port cities of Limón and Puntarenas. In addition, some PVOs are in the process of refining their methodologies for replication in new geographic areas.

Because PVOs are often able to reach some of the hardest-to-reach target groups that both AID and the GOCR wish to help and integrate into the country's development processes, and because PVOs can also tap private sector donations for use in development programs, the Mission proposes to allocate $450,000 in FY 1983 to support their efforts in line with the purpose statement above. Local PVOs working outside the San José Metropolitan Area will be given priority.

COUNTERPART INSTITUTIONS:

The executing entities will be those PVOs carrying out developmental activities in Costa Rica and, in particular, in rural areas or secondary cities.

TARGET GROUP:

PVOs will benefit from the proposed assistance, but the ultimate beneficiaries will be Costa Rica's unemployed or underemployed poor residing in rural areas or secondary city slums who will be reached by the PVO projects.

RELATED ONGOING ACTIVITIES:

None. However, the Mission has an active OPG program with PVOs in areas such as environmental education, training and credit to community groups, special education and soybean production/processsing.

ISSUES:

None.

TABLE V - FY 1983 PROPOSED PROGRAM RANKING

Country/Office USAID/Costa Rica

RANK	DECISION PACKAGES/PROGRAM ACTIVITY DESCRIPTION	ONGOING/NEW	LOAN/GRANT	APPROP. ACCT.	PROGRAM FUNDING ($000) INCR	PROGRAM FUNDING ($000) CUM	WORKFORCE (Number of Workmonths) USDH INCR	USDH CUM	FNDH INCR	FNDH CUM
	DECISION PACKAGE MINIMUM									
	Pipeline Projects									
	515-0130 Urban Employment and Community Development	0	L	SD	(3,624)	(3,642)				
	515-1032 Family Planning Services	0	G	PN	(238)	(3,880)				
	515-0134 Commodity Systems	0	L	FN	(4,452)	(8,332)				
	515-0138 Science and Technology	0	L	EH/SD	(3,150)	(11,482)				
	515-0145 Natural Resources Conservation					(18,982)				
	515-0148 Agrarian Settlement and Productivity	0	L	FN	(7,870)	(26,852)				
	515-0176 Private Sector Productivity	0	L	SD	(7,400)	(34,252)				
	515-0180 Campesino Union Strengthening and Credit	0	G	FN	(230)	(34,482)	-	168	-	228
	Continuing and New Projects									
1	515-0185 Economic Stabilization and Recovery (non-add to DA)	0	L	ESF	(5,000)	(5,000)				
2	PL 480 Title II-CARE MCH/SF (non-add to DA)	0	-	-	(2,410)	(7,410)				
3	515-0178 Private Sector Assistance	0	L	SD	7,400	7,400	12*	180*		
4	PL 480 Title I (non-add to DA)	0	L	-	(10,000)	(17,410)				

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE V - FY 1983 PROPOSED PROGRAM RANKING

Country/Office
USAID/Costa Rica

RANK	DECISION PACKAGES/PROGRAM ACTIVITY DESCRIPTION	ONGOING/NEW	LOAN/GRANT	APPROP. ACCT.	PROGRAM FUNDING ($000) INCR	PROGRAM FUNDING ($000) CUM	WORKFORCE (Number of Workmonths) USDH INCR	USDH CUM	FNDH INCR	FNDH CUM
5	515-0174 Energy Policy Development	O	G	SD	200	7,600				
6	515-0177 Administrative Reform and Financial Management	O	G	EH	350	7,950				
7	515-0133 Special Development Activity	O	G	SD	200	8,150				
8	515-0162 Environemental Education II	O	OPG	FN	100	8,250				
9	515-0000 PD & S	O	G	FN	200	8,450				
10	515-0000 PD&S	O	G	SD	150	8,600				
11	515-0168 Family Planning Services II	N	G	PN	350	8,950				
12	515-0000 PD&S	O	G	PN	25	8,975				
13	515-0000 PD&S	O	G	EH	25	9,000				
	Total Minimum Package and Related Workforece:									
	ESF					(5,000)				
	PL 480 Title I					(10,000)				
	PL 480 Title II					(2,410)				
	DA					9,000				

* Workforce equals the prescribed personnel planning level and, as per guidance, excludes a JAO detail. However, the Mission recommends an increase in this level (see attached narrative statement).

TABLE V - FY 1983 PROPOSED PROGRAM RANKING

Country/Office
USAID/Costa Rica

RANK	DECISION PACKAGES/PROGRAM ACTIVITY: DESCRIPTION	ONGOING/ NEW	LOAN/ GRANT	APPROP. ACCT.	PROGRAM FUNDING ($000): INCR	PROGRAM FUNDING ($000): CUM	WORKFORCE (Number of Workmonths): USDH INCR	USDH CUM	FNDH INCR	FNDH CUM
	DECISION PACKAGE CURRENT									
	Continuing and New Projects									
14	515-0185 Economic Stabilization and Recovery (non-add to DA)		L	ESF	(13,000)	30,410				
15	515-1078 Private Sector Assistance	N	L	SD	-900 (6,500)	8,100				
16	PL 480 Title I (non-add to DA)	-	-	-	(5,000)	(35,410)				
17	515-0177 Administrative Reform and Financial Management	O	G	EH	200	8,300				
18	515-000 PD & S	O	G	FN	100	8,400				
19	515-000 PD & S	O	G	SD	50	8,450				
20	515-0168 Family Planning Services II	N	G	PN	100	8,550				
21	515-9997 Proposed OPGs	N	OPG	FN/EH	450	9,000		180	228	
	Total Current Package and Related Force:									
	ESF					(18,000)				
	PL 480 Title I					(15,000)				
	PL 480 Title II					(2,410)				
	DA					9,000				

TABLE V - FY 1983 PROPOSED PROGRAM RANKING

Country/Office
USAID/Costa Rica

RANK	DECISION PACKAGES/PROGRAM ACTIVITY				PROGRAM FUNDING ($000)		WORKFORCE (Number of Workmonths)			
							USDH		FNDH	
	DESCRIPTION	ONGOING/ NEW	LOAN/ GRANT	APPROP. ACCT.	INCR	CUM	INCR	CUM	INCR	CUM
	DECISION PACKAGE AAPL									
22	515-0185 Economic Stabilization and Recovery (non-add to DA)	O	L	ESF	(17,000)	(52,410)				
	Total APPL Package:									
	ESF					(35,000)				
	PL 480 Title I					(15,000)				
	PL 480 Title II					(2,410)				
	DA					9,000				
	OVERALL TOTAL					61,410		180		228

TABLE V NARRATIVE

1. Decision Package Minimum

The Mission's minimum package in FY 1983 consists of pipeline projects and new funding in the amount of $26.4 million. Against a $64.2 million FY 1982 program, it will provide a maintenance-level response on a variety of fronts to some of Costa Rica's most pressing macroeconomic and developmental problems.

The $5.0 million in the ESF category would be substantially lower than our earlier efforts to encourage the GOCR to deal with its fiscal, monetary and balance of payments problems in a manner consistent with its obligations to the IMF. It would amount to less than one half of the semiannual disbursements proposed for the FY 1982 program. At the minimum level U.S. assistance for balance of payments support would be interpreted as a hands-off approach and our influence on Costa Rica's macroeconomic policy would be practically nil. This would follow a period of having actively encouraged the country to undergo fiscal and monetary discipline. This abrupt decline in tangible U.S. support for a change in Costa Rica's macroeconomic policies would reduce the likelihood of success not only because of the smaller amount of official USG assistance but also because it would delay or reduce the flow of other external resources, particularly from the private sector. Costa Rica's moderate public opinion leaders would have difficulty explaining the erosion of U.S. support. U.S. credibility and interests in this country and the rest of Central America would be damaged. We are assuming that our program level in FY 1982 will be as proposed in this document. If that does not occur, loss of USG influence will not have to await the FY 1983 Minimum Package level. It will come earlier. At the minimum level the ongoing PL 480 Title II assistance will be continued. It focusses on maintaining the nutritional status of vulnerable groups, specifically pre-school children, school children and pregnant/lactating mothers. Continuation of this program is essential to offset the relatively greater negative impact of the current economic situation on low-income families. In addition to helping in this areas, the PL 480 program has been a valuable adjunct to other nutrition improvement activities presently being funded under a loan to the GOCR and an OPG to CARE. Continuation of PL 480 Title II through FY 1983, following the termination of these activities, will serve to continue support for administrative improvement and reform of Costa Rica's national nutrition program. This is an expensive program and making it more efficient is fully consistent with the Mission's overall program strategy.

The minimum also includes development lending for credit for the private sector, including cooperatives; a PL 480 Title I program; and incremental funding for ongoing projects. The Private Sector Assistance Loan is ranked higher than ongoing grant projects because it can help in maintaining productivity and employment during 1983 when the economic crisis is still expected to be severely limiting the availability of credit to the private sector. PL 480 Title I resources amounting to $10.0 million, as a supplement to a CCC credit program, are needed to keep Costa Rica's food imports from dropping to dangerously low levels. A massive draw-down of imported wheat, vegetable oils and animal feed took in FY 1981, reflecting the devaluation and the sheer lack of foreign exchange. Consequently, domestic consumption and imports of these commodities will fall, although by how much is difficult to predict. The drop in imports will result in increased demand for locally produced substitutes, but the lack of liquidity and credit, as well as higher prices for imported fertilizers and chemicals, will limit the domestic supply response. Thus Title I resources will help alleviate critical food shortages while, at the same time, making urgently needed counterpart available for high priority development activities, including ongoing Mission programs, in the agricultural sector. The next priority goes to ongoing grant projects in the areas of energy,administrative reform and assistance to small community-based groups under the Special Development Fund. The first two activities have high priority because of the lasting impact they can have on Costa Rica's long-term development. The $200,000 for the Special Development Fund will allow us to continue timely support for the community development and income-producing activities of isolated community organizations.

The minimum also includes a total of $850,000 for the ASCONA environmental education OPG, a new initiative in the area of population and the various PD&S functional accounts. ASCONA has been one of the Mission's most successful OPGs and the funds requested herein would enable that organization to continue its activities, including establishment of new chapters in areas adversely affected by environmental degradation. This is the final year of funding for a project started in FY 1980. In the area of family planning, the Mission believes that after 1982 there will be an improved climate for the implementation of information and contraceptive distribution programs in Costa Rica (see project narrative for explanation). Thus,FY 1983 funding represents our commitment to support a revitalized program covering both private and public sector family planning activities.

The $400,000 in the various PD&S accounts will finance support activities for ongoing projects, evaluations, selected short-term travel, design of new projects, sector assessments and special studies. The demand for these resources will be high and at this level we will have to defer several planned desirable activities.

We have been assigned 16 workyears (192 workmonths) of USDH staff, which includes 1.5 workyears for part-time resident hires and a JAO detail. This compares with our current situation of 16.8 workyears for full-time USDHs and 2.7 workyears for three part-time resident hires. We have thus been asked to reduce U.S. staffing from 19.5 workyears (234 workmonths) to 16 workyears (i.e., by 18%) and to take these cuts beginning in FY 1982.

We hope this is a hypothetical exercise. A Mission cannot be expected to deal analytically and programatically with the kind of fundamental change in strategy and program that we are facing with a staff smaller than it has now. Not only are we trying to define and design programs addressing Costa Rica's fast-breaking economic crisis, but we also have a large and complex development project portfolio which demands careful management to make it effective, especially in such a changed and difficult environment. Program lending and PL 480 Title I programs may not be labor intensive once they are in place. Putting them in place <u>is</u> labor intensive.

We have coped with the imposed restriction on our full-time US work-force level by delaying arrivals of replacements for departing staff for three or four months. Remaining staff will be asked to do double duty. Even though this is unfair to remaining staff and demoralizing, we think it is the least-cost solution. We do not see how we can cut any single position and still cover our responsibilities.

Most members of this Mission are already working much longer than normal working hours. Any cuts will produce a marked decrease in efficiency i.e., in the thoroughness, timelyness and creativity of this Mission's performance. There is no slack to draw on, and the result of having fewer people to do more work can only be a less effective development assistance program in a country that needs help more as each day passes

The cut in the part-time ceiling is especially troublesome. The Mission has three part-time U.S. employees, all spouses of USDH staff members. Two fill essential professional jobs and each works 39 hours a week. We cannot perform our project management and program planning functions without them. The third is a secretary who works 32 hours a week and handles classified material. With the increased volume of classified cable traffic in the Central America region, her assistance to the USDH Executive Assistant has become essential. She also serves as a "swing" secretary for the rest of the Mission so other secretaries can take vacations.

We strongly urge AID/W to review the work force levels tentatively assigned to USAID/Costa Rica for FY 1982 and FY 1983 and restore them to a level compatible with sound management of an important, rapidly-changing program. In our view, an adequate level of U.S. staffing would be a minimum of 15 full-time USDH and three part-time resident hires for the USAID and one GSO employee assigned to the JAO. Time alloted for the part-time employees should total at least 32 workmonths. If we are not able to increase the hours these part-time employees can work, we would substitute purchase order or contract work using operating expense funds. However, this is not a good solution.

We would also continue a nonpersonal services contract for technical advisory assistance in the urban and regional development field ($70,000 for this contract is included in our operating expense budget). We would, however, give up IDI training.

In terms of foreign national employees, AID/W's control figure of 19 workyears (228 workmonths) is the same as our current ceiling. It would be preferable to increase our ceiling by one workyear to bring on as a direct hire an agricultural advisor currently working under a personal services contract funded from the operating expense budget. Since we considered this unlikely, we have continued to budget him as a PSC. Ourforeign national staff also includes seven people (84 workmonths) financed by the GOCR Trust Fund and two clerical staff in the Rural Development Office contributed by the Ministry of Agriculture.

The nature of the AID program projected for FY 1982 and FY 1983, with its greater political content, requires USDH staff. We see no opportunity for substituting U.S. contractors or FN direct hire or contract staff.

Decision Package Current

While the Mission has no new figures with which to update Costa Rica's balance of payments gap, we assume that the CDSS projections ($65 million in 1981, $95 million in 1982 and $40 million in 1983) have probably increased because of falling coffee prices and the delay in signing the IMF agreement. For this reason, the highest priority item in the Mission's $39.0 million current package is the $13.0 million increase in ESF. The addition of these resources , plus the assistance from the IMF, the World Bank and the IDB, will improve Costa Rica's ability to maintain a tolerable level of imports, at least in nominal terms. In turn, this will allow the economy to perform at a higher level of employment and lower level of inflation than would be the case without the increase in ESF. Nevertheless, this amount would still be considerably less than we projected in the CDSS for U.S. balance of payments support. Because of the lack of foreign exchange, particularly for vital materials, Costa Rica's adjustment may still be too difficult to take in stride. Productivity would certainly drop and unemployment levels would remain high. In effect, the country's economic recovery would stretch out over a longer period. Nevertheless, $18.0 million in ESF does provide a respectable, if limited, demonstration of U.S. concern for Costa Rica's economic stability and recovery.

Funds for the Private Sector Assistance Loan are reduced under the current level. With the increase in ESF and counterpart local currency being channelled mainly to the private sector, the Mission would free up some scarce DA funds to provide an adequate level of funding for ongoing and new grants and OPGs and the PD&S accounts. Continuation of grants in areas such as energy policy, administrative reform, and community self-help activities can serve to help Costa Rica find new viable ways to save foreign exchange, reduce the cost of social programs, and improve the welfare of its people. Similarly, the new family planning activity will be needed to permit the continued involvement of private entities in this vital area. Funding for new OPGs is especially important because, with the exception of Environmental Education and Rural Union Strenghthening, all of the Mission's ongoing OPGs will have terminated in FY 1983.

PL 480 Title I increases by $5.0 million at the Current level for a new total of $15.0 million. These resources, hopefully complementing a new CCC credit, will help Costa Rica maintain food import levels. Any prolonged shortage of the types of commodities contemplated under this program is likely to contribute to social unrest already emerging in Costa Rica. Local currency generated by PL 480 sales will be used for high priority rural development activities, including assignment as counterpart for ongoing loans in the agricultural sector.

3. Decision Package AAPL

At the AAPL level, $17 million in ESF would be added. This would bring the total FY 1983 program to $61.4 million which would allow a range of activities designed to enable the Mission to play an effective activist role in supporting Costa Rica's economic stabilization, recovery and development efforts. Such firm and continuing demonstration of U.S. interest and support is urgently needed to help the country emerge from the current crisis with its institutional structure and democratic processes intact. A total ESF program of $35.0 million in 1983 would further encourage the GOCR to stay within the limits established in the IMF agreement (which are essential for economic stabilization), and to adhere to policies which set the stage for the resumption of long-term growth. Even with financial support from the IMF, the World Bank, AID and other donor organizations in the balance of payments area, Costa Rica's imports and, as consequence, its production and employment levels, would still drop. The adjustment, however, will not be nearly as severe as it would be in the absence of significant ESF assistance. Finally, an important benefit of the increment in ESF support is the additional local currency which would become available to provide counterpart funding for our ongoing projects as well as to increase credit for the private sector, particularly for activities which relate to export development and agricultural production. While being careful to avoid an inflationary impact from such resources, we will be able to influence which governmental activities receive financing and which are forced to retrench.

The Mission's staffing level for USDHs, FNDHs and contractors at the AAPL is the same as that projected at the lower funding levels. Unless the USDH level is increased, the same constraints on project design, monitoring and reporting as well as handling classified information which the Mission will face at the Minimum and Current levels are likely to apply to the AAPL as well. The Mission does not believe, however, that the $17.0 million increase in ESF in itself would require more than the total of 15 USDHs and three part-time U.S. resident hires for the USAID needed at the Minimum and the Current.

Country/Office USAID/Costa Rica

Page 1

TABLE VIII

OPERATING EXPENSE SUMMARY

COST SUMMARIES	FY 1980			FY 1981			FY 1982		
	($000's)	Related Workyear	Unit Cost	($000's)	Related Workyear	Unit Cost	($000's)	Related Workyear	Unit Cost
US Direct Hire	621.6	17.7	35.1	849.8	19.5	43,6	705.8	16.0	44.1
FN Direct Hire	232.7	19.0	12.2	216.7	19.0	11.4	239.5	19.0	12.6
US Contract Pers.	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
FN Contract Pers.	38.0	1.5	25.3	26.0	1.0	26.0	23.1	1.0	23.1
Housing Expense	124.9	15.2	8.2	182.0	16.75	10.9	244.4	14.6	16.7
Office Operations	265.3	xx	xx	298.7	xx	xx	430.5	xx	xx
Total Budget	1,282.5	xxx	xxx	1,573.2	xx	xx	1,643.3	xx	xx
Mission Allotment	615.3	xxx	xxx	749.0	xx	xx	900.9	xx	xx
FAAS	89.6	xxx	xxx	78.3	xx	xx	83.0	xx	xx
Trust Fund	41.0	xxx	xxx	33.3	xx	xx	42.9	xx	xx

TABLE VIII

COST SUMMARIES	FY 1983			FY 1983			FY 1983		
	($000's)	Related Workyear	Unit Cost	(000's)	Related Workyear	Unit Cost	($000's)	Related Workyear	Unit Cost
US Direct Hire	734.6	16.0	45.9	734.6	16.0	45.9	734.6	16.0	45.9
FN Direct Hire	245.2	19.0	12.9	245.2	19.0	12.9	245.2	19.0	12.9
US Contract Pers.	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-	-0-
FN Contract Pers.	23.4	1.0	23.4	23.4	1.0	23.4	23.4	1.0	23.4
Housing Expense	300.7	14.5	20.7	300.7	14.5	20.7	300.7	14.5	20.7
Office Operations	383.5	xx	xx	383.5	xx	xx	383.5	xx	xx
Total Budget	1,687.4	xx	xx	1,687.4	xx	xx	1,687.4	xx	xx
Mission Allotment	938.1	xx	xx	938.1	xx	xx	938.1	xx	xx
FAAS	85.0	xx	xx	85.0	xx	xx	85.0	xx	xx
Trust Fund	44.7	xx	xx	44.7	xx	xx	44.7	xx	xx

OVERSEAS WORKFORCE REQUIREMENT SCHEDULE

TABLE IX

In order to adhere to the FY 1982 and FY 1983 workyear planning levels given in STATE 123704, it was necessary to increase the time span during which a position would be vacant after an incumbent left on Home Leave/Transfer. This method of computing workmonths made it possible to reach the levels specified for FY 1982 and 1983 budgeting purpose. However, as pointed out in the Decision Package Narrative, this does not take into account the realities of the USAID/Costa Rica program portfolio.

A review of USAID/Costa Rica planned program levels for FY 1984 and 1985 and the related requirements for planning, programming, and administering has impelled us to set the work force levels at the levels shown for workmonths in Columns 16 and 17 Table IX.

As per instructions, Column 15 indicates the number of workmonths by position that Mission management deems necessary to adequately manage the program portfolio during 1983. These positions are marked by an asterisk*.

TABLE IX
AGENCY FOR INTERNATIONAL DEVELOPMENT
OVERSEAS WORKFORCE REQUIREMENTS
IN WORKMONTHS

DECISION UNIT: COSTA RICA

										F.Y. 1983					
ITEM	US FN	FUNC-TION	SKILL	POSITION NUMBER AND TITLE		LEVEL	PERS. CAT.	WORK SHC	FY 81	FY 82	AT MIN.	AT CURR.	AT AAPL	ABOVE PLAN LEVEL	FY 84	FY 85
41	U	10	011	51008	Director	S	-	40	12	10	12	12	12	-	12	12
47	U	10	013	51012	Assistant Director	S	-	40	12	12	9	9	9	3*	12	12
1264	U	10	073	51016	Executive Assistant	E	-	40	11	12	12	12	12	-	12	12
	U	10	050	51020	Secretary	E	-	32	10	6	6	6	6	6*	-	-
4432	F	10	050		Administrative Assistant	N	-	40	12	12	12	12	12	-	12	12
	F	10	050		Senior Assistant	N	-	40	12	12	12	12	12	-	12	12
57	U	20	023	52508	Program Officer	H	-	40	12	9	12	12	12	-	12	12
	U	20	023	52524	Assistant Program Officer	E	-	39	12	6	6	6	6	6*	12	12
1779	F	20	990		Senior Assistant	P	-	40	12	12	12	12	12	-	12	12
72	U	30	940	54013	Capital Resources Development Officer	H	-	40	12	12	9	9	9	3*	12	12
75	U	30	940	54015	Deputy Capital Development Resources Officer	H	-	40	7	12	12	12	12	-	12	12
89	U	30	940	54020	Capital Projects Development Officer	M	-	40	12	12	12	12	12	-	12	12
	U	30	940		Capital Project IDI	B	I	40	10	5	-	-	-	-	-	-
1783	F	30	050		Secretary	N	-	40	12	12	12	12	12	-	12	12
877	U	40	041	57010	General Development Officer	H	-	40	12	9	12	12	12	-	12	12
78	U	40	091	57014	Assistant General Development Officer	M	-	40	12	12	12	12	12	-	12	12
1267	U	40	103	55012	Agricultural Development Officer	H	-	40	12	12	9	9	9	3*	12	12
	U	40	103	55019	Assistant Agricultural Development Officer	H	-	40	12	9	12	12	12	-	12	12
	U	40	092	55020	Agricultural Economist	M	-	40	12	12	9	9	9	3*	12	12
	U	40	092	55014	Project Manager	H	-	40	9	-	-	-	-	-	12	12
87	U	40	805	56010	Urban/Ind. Development Officer	H	-	40	12	12	10	10	10	2*	12	12
83	U	40	805	56020	Urban/Ind. Development Officer	M	-	40	12	9	12	12	12	-	12	12
	U	40	092	57016	Project Manager	M	-	39	12	6	6	6	6	6*	-	-
1781	F	40	990		Senior Specialist	P	-	40	12	12	12	12	12	-	12	12
1782	F	40	990		Specialist II	P	-	40	12	12	12	12	12	-	12	12
1784	F	40	990		Senior Assistant	P	-	40	12	12	12	12	12	-	12	12
	F	40	050		Secretary	N	-	40	12	12	12	12	12	-	12	12
	F	40	050		Secretary	N	-	40	12	12	12	12	12	-	12	12
185	U	50	043	53014	Controller	H	-	40	8	12	9	9	9	3*	12	12
1786	F	50	041		Accountant Assistant (Senior)	P	-	40	12	12	12	12	12	-	12	12
1787	F	50	041		Assistant Accountant II	P	-	40	12	12	12	12	12	-	12	12

ITEM	US FN	FUNC-TION	SKILL	POSITION NUMBER AND TITLE	LEVEL	PERS. CAT.	WORK SHC	FY 81	FY 82	F.Y. 1983 AT MIN.	AT CURR.	AT AAPL	ABOVE PLAN LEVEL	FY 84	FY 85
1788	F	50	041	Assistant Accountant II	P	-	40	12	12	12	12	12	-	12	12
	F	50	041	Assistant Accountant II	P	-	40	12	12	12	12	12	-	12	12
4431	F	50	041	Assistant Accountant II	P	-	40	12	12	12	12	12	-	12	12
	F	50	041	Assistant Accountant II	P	-	40	12	12	12	12	12	-	12	12
1785	F	50	990	Senior Specialist	P	-	40	12	12	12	12	12	-	12	12
	F	50	041	Cashier	P	-	40	12	12	12	12	12	-	12	12
1789	F	50	050	Secretary	N	-	40	12	12	12	12	12	-	12	12
1790	F	60	99	Driver	N	-	45	12	12	12	12	12	-	12	12
1268	U	90	034	59905 Assistant General Services Office JAO Detail	E	J	40	12	3	11	11	11	1*	12	12
				TOTAL FOR DECISION UNIT				463	420	420	420	420	36*	444	444

DATA AND ACQUISITION, OPERATION, AND USE OF ADP AND WP EQUIPMENT, SERVICES, AND SYSTEMS

2. Narrative Statement-WP

At present, USAID/Costa Rica has two (2) Model 5505-3 Wang Word Processor Systems in operation, one of which is supposed to be a redundant system. Based on our experience with these systems, we think that four (4) additional systems can be utilized with a high degree of effectiveness. Our present systems are used in the Loan Office and Controller's Office. It is planned to install additional systems in the following offices:

Director's Office -1

Program Office-1

Rural Development Office -1

Human Resources and Special
Development Activities Office 1

a. USAID/Costa Rica would prefer to have these systems installed during FY 1982.

As an alternative to the additional Wang units, USAID/Costa Rica would welcome SER/DM appraisal of the feasibility of installing a Wang ADP system.

3. REPORT ON OBLIGATIONS AND INVENTORY OF ADP AND WP SYSTEMS

TABLE VIII (a)
ADP SYSTEMS INVENTORY
($000, Workyears)

		Fiscal Year		
		1981	1982	1983
A.	Capital Investments			
	1. Purchase of ADP	23.3	56.1	-0-
	2. Purchase of Software	-0-	-0-	-0-
	Subtotal	-0-	-0-	-0-
B.	Personnel			
	1. Compensation, Benefits, Travel	-0-	-0-	-0-
	2. Workyears	-0-	-0-	-0-
	Subtotal			
C.	Equipment Rental and Other Operating Cost			
	1. ADP Equipment (ADPE) Rentals	5.7 1/	25.3 1/	-0-
	2. Supplies and Leased Software	1.2	3.3	-0-
	Subtotal			
D.	Commercial Services			
	1. ADP Service Bureau	-0-	-0-	-0-
	2. Systems Analysis and Programming	-0-	-0-	-0-
	3. ADPE Maintenance	-0-	-0-	-0-
	Subtotal			
E.	Total Obligations (A-D)	-0-	-0-	-0-
F.	Interagency Services			
	1. Payments	-0-	-0-	-0-
	2. Offsetting Collections	-0-	-0-	-0-
	Subtotal	-0-	-0-	-0-
G.	GRAND TOTAL (E+F)	30.2 2/	84.7 3/	--

4. REPORT ON INVENTORY OF WORD PROCESSING SYSTEMS

	Fiscal Year 1981	1982	1983
A. Capital Investment in W/P Equipment	23.3	56.1	-o-
B. W/P Equipment Rental and Supplies	1.2	3.3	-
C. Other W/P Costs	5.7 1/	25.3 1/	-
D. Total	30.2 2/	84.7 3/	-

1 Spare parts.

2/ Obligations totaling $29,800 were incurred toward the close of FY 1980 for purchase of Wang equipment and related accesories, including spare parts, supplies, and trasportation. The goods were received and payment was made in FY 1981. The $29,800 is included in the $30,200 shown above.

3/ FY 1982 Budget estimates are based on cost of equipment, accesories, etc acquired in FY 1981 with 10% added thereto for possible price increase.

Country/Office USAID/Costa Rica

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE XI

P.L. 480 TITLE I/III REQUIREMENTS
(Dollars in Millions, Tonnage in Thousands)

COMMODITIES	FY 1981						Estimated FY 1982						Projected FY 1983					
	Agreement		Shipments		Carry into FY 1982		Agreement		Shipments		Carry into FY 1983		Agreement		Shipments		Carry into FY 1984	
	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT	$	MT
Title I																		
Wheat							3.5	18.0	3.5	18.0	-	-	3,8	18.0	3.8	18.0	-	-
Vegetable Oil							1.5	1.7	1.5	1.7	-	-	1.6	1.7	1.6	1.7	-	-
Corn/Sorghum							5.0	30.0	5.0	30.0	-	-	9.6	56.0	9.6	56.0	-	-
Total							10.0	49.7	10.0	49.7	-	-	15.0	75.7	15.0	75.7	-	-
Of which Title III																		
Total																		

COMMENT:

AID (4-81)

Country/Office USAID/Costa Rica

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE XII

PL 480 TITLE I/III

Supply and Distribution
(000 Metric Ton)

STOCK SITUATION	FY 1981	Est. FY 1982	Proj. FY 83
Commodity - Wheat			
Beginning Stocks	23.0	5.0	15.0
Production	-	-	-
Imports	84.0	110.0	110.0
Concessional	0.7[1]	18.7[1]	18.7[1]
Non-Concessional	83.3	91.3	91.3
Consumption	102.0	100.0	102.0
Ending Stocks	5.0	15.0	23.0
Commodity - Vegetable Oil			
Beginning Stocks	3.8	0.8	1.0
Production	0.7	0.7	0.7
Imports	7.3	10.3	10.8
Concessional	1.2[2]	2.2[2]	2.7[2]
Non-Concessional	6.1	8.1	8.1
Consumption	11.0	10.8	11.2
Ending Stocks	0.8	1.0	1.3
Commodity - Corn/Sorghum			
Beginning Stocks	27.2	10.2	15.2
Production	63.7	67.3	71.0
Imports	107.6	126.0	144.0
Concessional	-	30.0	56.0
Non-Concessional	107.6	96.0	88.0
Consumption	188.3	188.3	210.0
Ending Stocks	10.2	15.2	20.2

Comment:

See Narrative Section V for assumptions underlying consumption estimates; FY 1981 figures are still estimates; only for wheat is the FY 1981 beginning stock figure well based.

1/ Includes the wheat equivalent of WFP Title II bread flour (estimated at 0.7 MT)

2/ Includes 1.2 MT of CARE Title II vegetable oil in FY 1981, 0.7 MT in FY 1982 and 1.1 MT in FY 1983.

P. L. 480 TITLE I NARRATIVE

I. Proposed Program Levels and Context

The Mission is proposing to initiate in FY 1982 a two-year Title I program which, combined with IMF, IBRD, and other AID resources, will support the GOCR's efforts to carry out a Structural Adjustment Program (SAP) over the next several years. At present, we intend to request $10.0 million in Title I resources for FY 1982, and $15.0 million for FY 1983. The Mission plans to submit a complementary analysis on or about August 30, 1981, which will address the issues raised in this narrative and respond to them in accordance with Washington guidance which is hereby requested.

II. Program Objectives

Although the proposed program would be small in relation to Costa Rica's staggering macro-level resource gaps, it will help the country to import the food which it needs but cannot pay for. Within the context of the SAP, it would:

--help the GOCR abide by the terms of the SAP by minimizing food shortages caused by lack of foreign exchange and otherwise softening the wrenching economic transition;

--support the policy changes implicit in the SAP which will, on the one hand, improve the agricultural sector's incentive structure and, on the other, increase Costa Rica's ability to pay for the food products which it will have to continue to import;

--provide agricultural credit and better production technologies which will help alleviate remaining supply response constraints to an expansion of agricultural production;

--protect substantial AID investments in certain Costa Rican institutions whose effectiveness and even solvency are threatened by the current economic crisis;

--provide local currency resources to complement our on-going rural development assistance program, the effective and rapid implementation of which is being impeded by the austerity program which the GOCR must continue; and,

--complement the existing and planned CCC commercial credit guaranty authority for Costa Rica in the effort to maintain markets for U.S. agricultural products and, at the same time, soften somewhat the impact of CCC guaranty commercial terms on Costa Rica's external debt service ratio.

III. Agricultural Production Trends

Costa Rica is a net exporter of agricultural products, the proceeds of which have not only paid for importing industrial goods and raw materials but also for a significant portion of its food requirements. In recent years, its agricultural production, and especially food production, has stagnated.

During 1979, the country's agricultural exports totalled $687 million, about 74% of its exports. During the same year its agricultural imports were $90 million, about 6% of its total imports. Coffee, bananas, beef, and sugar dominated agricultural exports, while food and feed grains, dairy products, and fruits and vegetables accounted for the bulk of agricultural product imports.

In recent years the agricultural sector has not shown the same dynamism that it had in the past. Per capita agricultural production has declined at an average annual rate of 0.5% from 1976 to 1979, contrasting sharply with a 0.9% per capita growth rate during the 1971-1975 period and a 2.0% per capita annual increase from 1962 to 1972.

The contribution of Costa Rica's principal agricultural export commodities in the past few years has been particularly disappointing: from 1973 to 1979 coffee production declined at an average annual rate of -0.5%, banana production dropped at a rate of -0.6%, and sugar output grew at only 1.2% per annum.

As can be seen in Table 1, the production performance of basic grains has been somewhat better, with the output of all (except white corn) being substantially higher in 1980 than in 1973. The GOCR's Basic Grains Program, which was initiated in 1975, no doubt had a significant short-term impact on the production of these grains. However, success in much of that program peaked several years thereafter; by 1978 "self-sufficiency" in these grains had been reached (see Table 2)[1/]. But only rice and sorghum had higher levels of production in 1980 than in 1976; and, as can be seen in Table 2, of these two grains only rice was being exported in 1980. All others were being imported.

1/ In fact, as will be discussed below, this picture is deceptive. Although yellow corn and sorghum (feed grains) were not being imported, soy and cotton-seed meal were.

TABLE 1

PRODUCTION OF BASIC GRAINS (1973-1980)
(000's of Metric Tons)

	1973	1974	1975	1976	1977	1978	1979	1980
Beans	3.1	4.3	12.7	14.3	12.1	12.3	9.8	10.2
Rice	104.2	85.5	141.7	146.9	148.8	170.0	202.0	207.7
Corn, White	47.5	51.6	49.7	63.4	33.5	18.9	36.4	47.5
Corn, Yellow	8.9	6.8	10.2	28.0	37.5	31.8	18.2	23.8
Sorghum	15.3	14.5	12.8	17.9	26.8	35.3	45.9	29.3

Source: Costa Rica's Nutrition Information System, Food Balance Sheets.

TABLE 2

IMPORTS (EXPORTS) OF FOOD PRODUCTS (1973 - 1980)
(000's of Metric Tons)

	1973	1974	1975	1976	1977	1978	1979	1980
Wheat	76.4	74.2	82.7	80.6	75.4	95.8	100.7	93.9
Beans	5.8	33.8	4.7	(3.6)	(.1)	-	8.0	13.1
Rice (Polished)	.2	(9.4)	(3.4)	(2.1)	(33.2)	(37.4)	(45.2)	(41.5)
Corn, white	(.3)	12.1	(2.4)	.1	1.3	-	-	4.5
Corn, yellow	41.7	33.5	12.6	3.9	-	-	-	63.6
Sorghum	1.3	10.1	17.2	22.7	-	-	27.3	61.4
Vegetable Oils	7.6	7.1	5.9	8.5	8.0	8.8	8.5	10.5
Shortening & Margarine	(4.1)	(5.1)	(2.3)	(2.7)	(2.8)	(.2)	(.1)	(.1)

Source: Costa Rica's Nutrition Information System, Food Balance Sheets.

Costa Rica imports all the wheat it consumes, which is as it should be. Although a few high altitude areas exist in which wheat production is agronomically feasible, these lands are more productively employed in the production of potatoes, temperate climate vegetables and high-value deciduous fruits.

Until 1979 the Costa Rican dairy industry provided virtually all of the country's domestic milk requirements. In 1978, the country produced 307 million liters versus 299 million liters in 1976. Since 1979, because of increased production costs (and in spite of increased milk prices) milk output has dropped substantially and milk products have had to be imported.

Costa Rica is self-sufficient in shortening and margarine (based on African palm oil) and has exported moderate amounts in past years. However, it needs to import cooking oil and animal feed. Prior to the Nicaraguan revolution, it imported cotton seed oil and cake from Nicaragua, as well as some U.S. soy products to satisfy these needs. In recent years these requirements have been met by more expensive U.S. produced soybean products, a situation which is likely to persist for some time owing to two important factors. First, Nicaraguan cotton production is not expected to recuperate for many years. Second, although a GOCR-CARE-AID OPG has had promising results with commercial soybean production in Costa Rica, soybean products have been destined for direct human consumption and their production is still heavily subsidized.

The Basic Grains Program combined the tools of subsidized credit, crop insurance, high support prices and import controls to achieve temporary self-sufficiency. It was very successful in large farm rice production, but in corn and bean production, which is dominated by small farmer, its success was more limited. The more limited success in the latter crops was due to the existence of both technological and climatological constraints to the production of these crops in Costa Rica.

Although the Basic Grains Program was at least in part successful, it had very high costs. On the one hand, support prices were almost double world market levels in most crops and $20-30 million were paid out in crop insurance losses, while, on the other hand, consumer prices were subsidized. The Costa Rican economy and the banking system were able to support the losses generated by these policies in 1978, at the height of the coffee "bonanza" -- since then they have not. Thus there has been a slipping away from "self-sufficiency". The foregoing is true in spite of the fact that from 1977 to 1980 support prices rose 29% for rice, 33% for corn, 27% for beans, and 41% for sorghum.

The devaluation of the colon from 8.6:1 to over 20:1 has brought support prices more or less in line with world market prices (or maybe even a little below them). The foregoing, coupled with much higher agricultural input costs (in colon terms) and the lack of credit resources may, in the short-run, have negative consequences for internal production. If the GOCR abides by the terms of the SAP, another casualty will no doubt be the consumer subsidy program. (This will probably occur in early 1982 because the GOCR has exchanged it for labor peace this year).

Although at first glance, the "self-sufficiency" strategy appears attractive from a food supply point of view, the Costa Rican experience is showing that in the long-run considerations of economic rationality are more important. That is, it may be better for Costa Rica, pursuing its comparative advantages, to increase its capacity to pay for certain food imports by increasing its production of other agricultural products. The SAP and the proposed Title I program will assist Costa Rica in making the transition.

IV. The Current Policy Environment and GOCR Efforts to Increase Agricultural Output

Several major GOCR policy shifts which will favor agricultural development are implicit in the SAP. The latter is characterized by a fundamental shift from an overall development policy framework in which import substitution was the key element to one which emphasizes export-led growth. This significant policy shift is characterized by the following:

--a lowering of the effective rates of protection which the import-substituting manufacturing sector has enjoyed. One consequence will be a change in the internal terms of trade that are generally favorable to the agricultural sector and especially to the small farm sub-sector, which is less dependent on imported capital goods and inputs;

--the elimination of an over-valued exchange rate and its substitution by an exchange rate regime favorable to exports (this has similar effects as the preceding point);

--an increase in credit resources available to the private sector because of public sector fiscal restraints and reduced public sector borrowing (most agricultural producers are in the private sector); and,

--infrastructure development, including roads and a large irrigation project (accompanied by tenure adjustment) which will favor agricultural output.

The GOCR SAP proposal to the IMF also contains a series of policy measures and specific projects which have as their objective improvements in the sector's performance. Many of these activities will depend on the availability of financing, and a selection of them could perhaps be further articulated and included as self-help measures in a Title I program. Among the measures/projects proposed as part of the SAP are:

--a 120,000 hectare irrigation project benefitting 37,000 families (i.e. involving land redistribution);

--the incorporation of agricultural land through a program to upgrade access roads to all-weather standards;

--the implementation of the National Forestry Development Plan;

--the execution of the National Cane Program, which includes alcohol production for fuel;

--the modernization and reform of the property tax in such a manner as to penalize people who keep lands unproductive;

--an increase in the amounts of farm-level credit;

--the expansion of technical assistance coverage to 20,000 farmers and improving its integration with credit resources;

--the undertaking of institutional reforms in the sector to assure the consistency of agricultural policy;

--greater support to the National Seeds Program and applied agricultural research;

--a review of the protection enjoyed by national fertilizer and agro-chemical concerns, with a view to lowering agricultural input costs and increasing availability, and the installation of a quality control system for agricultural inputs;

--an examination of the possibility of having the GOCR budget defray 50% of the cost of agricultural payroll taxes;

--a review of internal price increases of agricultural export commodities, with a view to reducing internal-external price differences for coffee, sugar, and meat;

--the setting of a price policy for basic grains whose objective is to eliminate subsidized internal consumption through increases in the real cost to consumers of these products as real income goes up; and,

--the promotion of production of specific lines of agricultural products and the simplification of exporting procedures to stimulate the development of agroindustrial output for external markets.

The complementary report to be submitted to AID/W at the end of August will make recommendations on which of these, or others, might be included as Title I self-help measures and in what form.

V. Major Elements of the Proposed Program

A. The Commodities and Their Utilization

Based on the analysis carried out to date, the most likely Title I commodities for the proposed FY 1982 program are wheat, vegetable oil, and yellow corn/sorghum1/. These commodities, the supply and distribution of which for the 1976-1980 period are presented in Table 3, have been tentatively selected because the analysis undertaken so far indicates that their concessional financing will: (1) minimize the disruption of normal commercial marketings, and (2) not constitute a disincentive to domestic production. These commodities will be imported by the GOCR through its National Production Council (CNP) and be sold through ordinary commercial channels. The amounts and value of the required commodities are shown in Table XI, PL 480 Title I Requirements. Table XII illustrates the anticipated supply and distribution of these commodities for FY 1982 and FY 1983. It will be noted from these tables that for the products not produced in Costa Rica, wheat and vegetable oil, the amounts to be imported with Title I financing are small vis-a-vis normal commercial marketings. For corn/sorghum, which are produced in Costa Rica, provision exists for the expansion of domestic production and the amounts of the products to be non-concessionally imported could be reduced substantially without disrupting normal marketings. Sufficient market will therefore exist should the increase in domestic production be greater than anticipated. The problems associated with developing projections for Table XII, as well as the rationale for the figures included in it, are discussed below in the program issues section.

1/ Further analysis may also indicate the feasibility of including small amounts of cotton and tobacco.

TABLE 3

SUPPLY AND DISTRIBUTION OF PLANNED TITLE I COMMODITIES, 1976 - 1980
(000's of Metric Tons)

	1976	1977	1978	1979	1980
Wheat1/					
Beginning Stocks	16.0	12.0	17.3	19.0	21.0
Production	-	-	-	-	-
Imports	76.0	88.3	92.7	96.0	100.0
-Concessional2/	0.9	1.1	0.2	0.1	1.1
-Non-Concessional	75.1	87.2	92.5	95.9	98.9
Consumption	80.0	83.0	91.0	94.0	98.0
Ending Stocks	12.0	17.3	19.0	21.0	23.0
Vegetable Oil1/					
Production3/	N.A.	N.A.	N.A.	N.A.	N.A.
Imports	N.A.4/	7.4	8.1	10.26/	9.36/
-Concessional5/	.2	0.1	0.1	0.3	0.1
-Non-Concessional	N.A.	7.3	8.1	9.9	9.2
Consumption	N.A.	N.A.	N.A.	N.A.	N.A.
Change in Stocks	N.A.	N.A.	N.A.	N.A.	N.A.
Corn (yellow)7/					
Production	28.0	37.5	31.8	18.2	23.8
Imports	3.9	-	-	-	63.6
-Concessional	-	-	-	-	-
-Non-Concessional	3.9	-	-	-	63.6
Consumption	40.7	37.7	31.0	18.9	86.8
Change in Stocks	-8.8	-0.2	+0.8	-0.7	+0.6
Sorghum7/					
Production	17.9	26.8	35.3	45.9	29.4
Imports	22.7	-4.2	-	27.3	61.4
-Concessional	-	-	-	-	-
-Non-Concessional	22.7	-4.2	-	-	61.4
Consumption	40.7	22.7	30.6	77.8	82.0
Change in Stocks	-8.9	-0.3	+5.5	-5.3	+9.4

1/ Except for concessional imports, from Ag. Attache records (in fiscal years).

2/ Estimated wheat equivalent of WFP Title II flour imports.

3/ Some cotton and coconut oil production exists, normally less than 1,000 MT per year.

4/ Only figure available: 8.2 thousand metric tons for CY 1980.

5/ Calculated from WFP and CARE shipping reports.

6/ Prior to 1979, most cooking oil was cotton seed oil imported from Nicaragua. From 1979 on, mostly soybean oil from U.S., with large inventory build-up occuring in 1979 and 1980 because of GOCR (CNP) purchases in U.S.

7/ Calculated from Food Balance Sheets for Costa Rica prepared by the Nutrition Information System (SIN); data on calendar year basis.

B. Uses of Local Currencies Generated

The GOCR and USAID/Costa Rica will carefully program the expenditure of the local currency generated by the commercial sale of the Title I commodities for development activities in the agricultural sector. The following considerations will be taken into account in selecting among projects or activities to be financed.

--The inflationary impact of the local currency expenditures should be minimized by using resources to make suppliers in the sector more responsive; thus placing credit resources among farmers for productive purposes would have a high priority.[1/]

--In order to attempt to achieve "additionality" for the sector, activities would not be those which the GOCR would finance in any case.

--Activities financed should require a minimum of foreign exchange or have the promise of short-run foreign exchange earnings (or savings) which exceed requirements.

--To the degree possible, the activities financed should be carried out using private sector mechanisms in order to minimize long-term adverse fiscal impacts.

--Activities should be financed which are complementary to our current DA program efforts or which protect long-term AID infrastructure investments; similarly, certain of our DA-funded projects in the sector lack GOCR counterpart because of austerity, and [illegible] could make the difference between success or failure of these efforts.

--Activities financed should promote food production and equitable income distribution.

The following are some of the project ideas being considered for Title I local currency financing:

1/ Channeling credit resources through the subsidized interest rate program for small-farmers of the National Banking System would be avoided unless a change in interest rate policy could be supported or unless an existing DA project depended on the counterpart for success.

Production Credit for Agricultural Cooperatives

Like other private sector entities, agricultural coops have been severely hurt by the liquidity crisis and lack of bank credit. In many cases, coops and coop members are not paying off loans because they cannot be assured new financing. Making new credit resources available through the National Cooperative Institute (INFOCOOP) could mobilize under-utilized production resources at the farm level; protect long-term AID institutional investments; utilize a private sector, non-subsidized (or minimally subsidized) credit channel; and assist small farmer development.

GOCR Counterpart to the Commodity Systems Credit Program

This credit program provides for the financing of farm plans which include an element of crop diversification for small farmers. To date, neither the GOCR nor the Central Bank has been able to supply the required counterpart. Presently, the credit delivery system is being "de-bugged" and soon counterpart resources will be required to even continue loan dollar disbursements.

Completion of the National Cadaster - ITCO Titling Program

The national cadaster and ITCO (Lands and Colonization Institute) land - titling program, initiated under Loan 022 and extended to the Atlantic Zone under Loan 034, should be completed for the entire nation. The Costa Rican multipurpose cadaster not only makes possible the titling of small plots (most large plots are already titled), but also provides valuable natural resources and fiscal information. As pointed out earlier, the GOCR is committed to attempt property tax reform under the SAP. The combination of a tax reform and finished cadaster would provide significant incentives to put under-utilized lands into production and would help fill the GOCR fiscal gap.

Extension of the ITCO Caja Agraria to New Areas

The Caja Agraria was founded in ITCO under Loan 034 and is now about to start credit operations in three reform development areas. The Caja Agraria fills an important gap in the agricultural credit system in that it makes loans to new ITCO beneficiaries, who are not normally good banking-system clients, to enable them to get their new parcels into production more rapidly than otherwise. By FY 1982-83, the Caja Agraria should be sufficiently consolidated to enable it to enter other ITCO settlements.

Financing of the Agricultural Census

The last agricultural census was carried out in 1973 and the next is scheduled for 1983. Significant changes have occurred in the sector in the ten-year period and although survey methodology has improved, a census is still needed to gather certain types of data, especially for geographical comparisons and land tenure. Because of the austerity program, there is a danger that the census will be postponed, perhaps even for several years. The risk of many decisions being made on the basis of out-dated information thus exists. PL 480 Title I local currencies may be able to assist the GOCR to carry out the census as scheduled, or perhaps with only a year's delay.

Seed Capital for a Private Food Technology Foundation

Mission experience under the Nutrition and Commodity Systems projects indicates that a multi-disciplinary, problem-centered food technology effort can have significant development impact. With AID assistance a significant food technology capacity has been developed in the University of Costa Rica's Food Technology Research Center (CITA). CITA, however, has not developed regular sources of funding apart from concessional sources to support its work, nor has it had sufficient impact on private productive activities. The new export-led Costa Rican development model will rely heavily on agro-industrial production. CITA's food technology skills could play a key part in assuring Costa Rican product acceptability in export markets, which will no doubt be more demanding with regard to quality control, product preservation, packaging, presentation, etc., than is the protected Central American Common Market (CACM). New product innovation could also play a key role in Costa Rican food processors entering and holding more demanding foreign markets. The foundation could provide essential services to firms on a fee-for-service or commission basis; or, it could itself or in joint ventures market abroad such CITA-developed products as canned, smoked, baby Talapias. Title I generations would provide the foundation with seed capital to get started in these activities.

Start-up Financing for a Coconut Producer's League

Except for a period in the 1950's when there was a joint U.S.-GOCR agricultural extension and technology improvement program, Costa Rican public sector efforts in these areas have lacked effectiveness. Private sector (or mixed) crop-specific efforts have, on the other hand, been quite effective. The research, extension and marketing efforts of the Costa Rican Coffee Office, for example, have a world-wide reputation for quality and effectiveness and have been widely imitated. A similar example is provided by the Costa Rican Sugar Cane League. These organizations are financed by quotas which are obligatorily assessed on producers, the representatives of which control the efforts of the organizations. Hence they are self-financing and responsive to producer needs.

Based on the models of the Oficina del Café and the Liga de la Caña this activity would provide start-up financing for a similar entity for the development of commercial coconut production in Costa Rica, where coconuts are not so much produced as they are gathered. Technified coconut production presents an extremely viable alternative for the Atlantic Basin where black sigatoka disease has devastated plantain production and the monilia fungus has severely hurt cocoa production.

The complementary analysis to this narrative, to be submitted later, will cost out these and other possible developmental uses of local currency generations. GOCR concurrence with programmed expenditures would be secured prior to signing a Title I agreement.

IV. Program Issues and the Need for AID/W Guidance

The reader will note that Table XII contains several estimates and projections which, at first glance, seem unusual. However, they reflect current economic reality in Costa Rica. First, for all commodities in the table, a massive draw-down of stocks took place in FY 1981. This draw-down reflects the lack of foreign exchange for importing the commodities indicated. Secondly, the rates of growth of consumption and imports which are implicit in Table XII are much lower than the historical rates which may be calculated from Table 3. The factors which will result in lower levels of imports and consumption are various and their interrelationships complex, but the most significant are: the massive devaluation of the colon which lost over half its value in a six month period and the shortfalls in Nicaraguan cotton production over the last several years (which supplied both oil and animal feed to Costa Rica). The factors leading to reduced levels of consumption and imports are best examined on a commodity by commodity basis.

Wheat

The drop in the consumption of wheat will be a little less abrupt than for many other imported products because even after the colon was first allowed to float, the GOCR made a specific exception for wheat, and for some three months guaranteed foreign exchange for wheat imports at an exchange rate of 8.6:1. Still, within the next few months wheat stocks imported at 8.6:1 will be used up and the price of bread is expected to approximately double. Wheat products are an important source of food in Costa Rica, supplying about 335 calories daily per-capita (compared to 460 calories from fats, 364 calories from rice, and 197 calories from corn. White corn (in the form of tortillas) and wheat (in the form of bread) are close substitutes in the Costa Rican diet, with bread having a higher income elasticity of demand than corn. In 1980, 100% of the wheat used in Costa Rica was imported, while only 10% of corn was imported. Thus, with a doubling of the price of bread products and perhaps a 30% - 40% increase in the price of corn products, wheat consumption and imports are sure to fall because of substitution effects and because of falling real incomes. It is difficult to predict how much wheat consumption and imports will fall. The consumption and import estimates for FY 1982 and FY 1983 shown in Table XII are probably on the high side, even though they show decreasing levels.

Vegetable Oil

Projecting the demand for vegetable oil is even more complex than the case of wheat because of past government subsidies on vegetable oils through the CNP. Again, large amounts of vegetable oil were imported by the CNP just prior to devaluation. Although there is still a small amount of that vegetable oil available at about $2.00 per gallon (at 19.5:1 exchange), the GOCR has, as part of the SAP, agreed to stop subsidizing the product (at least for general consumption) and replacement supplies are being sold at retail at prices up to $9.00/gallon. By way of comparison, the PL 480 Title II planning price for soybean oil in gallon cans is $3.61. Domestically produced vegetable shortening, a close substitute for cooking oil, is produced from African palm oil. The oil from "old" plantings was price-controlled considerably below world market prices -- even prior to devaluation. (Still, Costa Rica is self-sufficient in African palm oil and has plans to export palm oil from "new" production which could come on line in three to four years). Vegetable cooking oil has a high income elasticity of demand and, like wheat, both income effects and substitution effects of increased price levels will come into play to reduce consumption and imports significantly. Probably, consumption and import levels will be below those indicated in Table XII and perhaps even below UMR levels as these are normally calculated.

Corn/Sorghum

The situation with yellow corn and sorghum is more complex than that of wheat and vegetable oil. In the animal feed market contradictory forces are at work. A goodly portion of the feed supplements pasture for cattle whose meat is subsequently exported. For this portion of the feed market, devaluation should stimulate demand, but sharply dropping export meat prices will have the opposite effect. To the degree that these imported feeds are used for dairy and poultry production, the same demand depressing factors are at work as for wheat and vegetable oils. Projecting import demand for these feed grains is further complicated by the fact that a significant portion of these grains are produced domestically. Increased demand for their domestic production should be marked, but output increases will be checked because supply response will be limited by lack of liquidity and credit, as well as higher prices for imported fertilizers and chemicals.

In summary the underlying factors which will determine consumption and import levels for the proposed Title I commodities are extremely complex. If UMRs are calculated in the normal manner, i.e., based on an average of past years' imports, there is a strong possibility that they would not be met even in the absence of a Title I program. For example, if the average amount of wheat imported for the FY 1976 - 1980 period had been established as the FY 1981 UMR, it would be 89.9 M.T. That amount is greater that the 84.0 MT import estimate for FY 1981 shown in Table XII. In other words, it is likely that even without a Title I program in FY 1981, commercial imports would not reach the UMR if it were calculated as described above. Thus the projected FY 1981 import figures argue strongly that Costa Rica does not have the capacity to import its usual marketing requirements for wheat. The case for vegetable oil would be similar; for feed grains, on balance, probably the same will be true, given hopefully increasing domestic production.

In short, given the demand-reducing factors implicit in the SAP, and the probability that the conservatively estimated consumption and import levels presented in Table XII will probably be considerably lower than shown, the Mission believes that the UMRs should be set far below the levels indicated by the moving average of five year import levels. Alternatively, and probably more practically, a determination should be made that Costa Rica does not have the capacity to import its usual marketing requirements. The Mission would appreciate guidance on this matter prior to committing more staff time and effort to the complementary analysis proposed earlier.

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE XIII

PL 480 TITLE II

(FY 1982)

I. Country Costa Rica

Sponsor's Name CARE/Costa Rica

A. Maternal and Child Health........................Total Recipients 112,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
92	Vegetable Oil	291.6	300.6
112	Whole Corn (bagged)	482.4	84.4
50	Non-Fat Dry Milk	292.5	122.6
Total MCH		1,066.5	507.6
Total adjusted MCH (Minus FY 1981 Carry-Over plus 15% Reserve)		743.3	354.6

B. School Feeding...............................Total Recipients 320,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
320	Vegetable Oil	806.4	831.4
320	Whole Corn (bagged)	345.6	60.5
320	Non-Fat Dry Milk	720.0	301.7
Total School Feeding		1,872.0	1,193.6
Total adjusted SF (Minus FY 1981 Carry-Over plus 15% Reserve)		1,382.0	851.4

C. Other Child Feeding..........................Total Recipients

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Other Child Feeding			

D. Food for Work................................Total Recipients

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Food for Work			

E. Other (Specify)..............................Total Recipients

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Other			

II. Sponsor's Name

FY 1983 ANNUAL BUDGET SUBMISSION

TABLE XIII

PL 480 TITLE II

(FY 1983)

I. Country Costa Rica

Sponsor's Name CARE/Costa Rica

A. Maternal and Child Health........................Total Recipients 112,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
92	Vegetable Oil	291.6	319.9
112	Whole Corn (bagged)	482.4	88.3
50	Non-Fat Dry Milk	292.5	122.6
Total MCH		1,066.5	530.8

B. School Feeding...................................Total Recipients 320,000

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
320	Vegetable Oil	806.4	884.6
320	Whole Corn (bagged)	345.6	63.2
320	Non-Fat Dry Milk	720.0	301.7
Total School Feeding		1,872.0	1,249.5

C. Other Child Feeding.........................Total Recipients ______

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Other Child Feeding			

D. Food for Work.................................Total Recipients ______

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Food for Work			

E. Other (Specify)............................Total Recipients ______

No. of Recipients by Commodity	Name of Commodity	(Thousands) KGS	Dollars
Total Other			

II. Sponsor's Name ______

P.L. 480 TITLE II NARRATIVE

The Current Program and Need for Continuation

In mid-1980 the Mission proposed re-establishment of a Title II program in Costa Rica for three years at an annual level of $2.4 million. As detailed in the Mission's proposal and subsequent additional documentation (refer to San Jose cables 5355 dated 10/10/80; 5912 dated 10/6/80; 5998 dated 10/6/80; and 6948 dated 11/21/80), Title II was requested for both humanitarian and developmental reasons.

The humanitarian justification was based on the need to help alleviate the hardship and strain on those groups--the poor and undernourished--least equipped to sustain the difficult balance of payments adjustments that had to be made. The developmental rationale centered on the need to provide vital support to the efforts of the General Directorate for Family Assistance (DESAF), the GOCR entity that finances the country's National Nutrition Program (PAN), in undertaking a necessary reform of the PAN to make it more cost-effective.

In January, 1981, the Inter-Agency Food Committee approved PL 480 assistance to Costa Rica through a split arrangement: a $2.0 million Title II program (this level also included ocean freight costs) for FY 1981 to meet immediate needs, and a shift in FY 1982 and FY 1983 to PL 480 Title I. After careful examination of the implications of this arrangement, the Mission concluded that the conversion to Title I to support the DESAF feeding program would be a mistake.

As pointed out in the update of Costa Rica's economic situation included in the Table I Narrative, the conditions which gave rise to the request for reinstatement of Title II have intensified. The economic crisis is hitting hardest the 33% of Costa Rican families whose income in 1978 was insufficient to provide for their most basic needs, especially food needs. In that year, 17% of the nation's families had a monthly per capita income that was equal to or below the monthly per capita cost of a basic food basket. An additional 16% of families had a per capita income that was greater than the per capita cost of the food basket; however, after spending some of their meager resources on housing and other essential needs, the amount they could spend on food was less than the cost of the basic food basket. 1/

The situation of the poor since 1978 has not only not improved, it has become worse. For example, since the end of 1978 the legal minimum wage for peones (unskilled agricultural workers --the bulk of the poor) increased by approximately 40%, while the consumer price index for food items went up by 52% --in spite of the fact that many of the food items included in the consumer price index are price controlled. 2/ In

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1/ The 1978 findings are reported in "Cobertura de algunos programas asistenciales de alimentación financiados por Asignaciones Familiares en distintos estratos socioeconómicos," Vol. 1, No. 1 of the DESAF Bulletin, DESARROLLO SOCIAL Y ASIGNACIONES FAMILIARES, May 1981.

2/ The wholesale price index for food items, which is less susceptible to controls and is a lead indicator for the consumer price index, jumped 81% from the end of 1978 to April 1981.

reality, the situation is worse than that: an AID-financed study carried out in mid-1980 on "The Causes of Poverty in Rural Costa Rica" showed that evasion of the wage law had become common practice in rural areas and that many peones were in fact earning considerably less than the minimum wage.

The disparity between income levels and inflationary surges has ominous implications for the poor. It has been demonstrated that as the percentage of family income going to food purchases rises, the percentageof malnourished children in those families also increases. 3/ Among those families spending 80% or more on food in 1978, 58% of the children were malnourished, as compared to the national level of 43%. Thus, because real purchasing power of the poor has been greatly eroded since 1978, the bottom 20% of the population has become more vulnerable to hunger and malnutrition. That already precarious situation is further exacerbated by the diminishing opportunities to work, as the sharp economic contraction is causing unemployment levels to rise.

Unfortunately, the situation of the poor will not improve in the near future. The country's economy must be reoriented radically, and the Structural Adjustment Program (SAP) which the GOCR plans to carry-out with IMF assistance will be an extremely difficult process. Because the poor have no resources in reserve to help them through this crisis, the full impact of the SAP will fall disproportionately on them. Thus, continuation of PL 480 Title II assistance to help mitigate that impact is more critical now than it was when we proposed a three-year program last year.

There are technical reasons which make substituting Title I for Title II inappropriate and illogical at this time. One of those reasons is that non-fat dry milk (NFDM), one of the three program commodities, is available under Title II but not under Title I. A change in the carefully selected commodity mix would entail major changes in program planning and product development. For example, the low-cost, nutritious food products developed for the program by the University of Costa Rica's Food Technology Research Center (CITA), under the Mission's Nutrition Program Loan, need milk as an input. Local supplies of milk are scarce and costly.

Even assuming that local currencies generated under Title I were used to purchase imported NFDM, this arrangement would entail a major loss in the program's progress. By the time the conversion to Title I was made, local currencies generated, import purchases transacted, and milk shipments received in-country, production of the CITA-developed products will have been disrupted.

Furthermore, foreign exchange would be required to import milk, and the 100% devaluation of Costa Rica's currency would reduce DESAF's purchasing power by half. In addition, DESAF would have to acquire foreign exchange precisely at a moment of acute foreign exchange shortage to cover costs of shipment which are granted under Title II. Thus, rather than assisting DESAF to continue supplementary feeding to children and mothers during the worst economic crisis the country has faced in decades,

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3/ Reported in "Gasto en alimentos según categorías de ingreso y su relación con el estado nutricional de los niños," Bulletin No. 8 of the Nutrition Information System, 1980.

a switch to Title I would impose a financial burden on DESAF at a time when it needs the flexibility to increase its support to development activities, especially those aimed at increasing the production of food (see San José 5355, dated 10/10/80).

Another factor which would make the switch to Title I difficult is that Title I is a government-to-government program. The current Title II program is administered by CARE, and the elimination of CARE's involvement would imply a loss, even if temporary, in the program's administration. That loss in administrative continuity could prove to be more serious, however, in light of the fact that 1982 is an election year. New people unfamiliar with the program will probably assume the administrative responsibilities for it, without the benefit of having CARE's experience to help maintain the program's momentum.

The elections bring another major problem: As a loan, Title I would require, to the best of our knowledge, ratification by the Legislative Assembly. As pointed out in Part II of the Table I Narrative, obtaining legislative approval has been no easy task, obtaining timely ratification in an election year will be even harder. The consequence would be, at minimum, a temporary break in program operations, or, more probably, a longer delay which could even stretch beyond May when the transition of government is made.

In sum, the Mission has carefully considered the viability questions of switching support for the National Nutrition Program to Title I. While we were prepared to follow through with the ad hoc agreement on the switch (we did not include Title II in our FY 1983 CDSS), we now propose that Title II assistance be continued in FY 1982-1983 for the reasons given above. Our concerns reflect those of Costa Rica's President who expressed preference for continued assistance to the National Nutrition Program under Title II (see San José 2481).

Effectiveness of the Current Program

In contrast to predecessor Title II programs, the current program design provides for greater coverage of maternal/child (MCH) recipients, improved targetting to those most in need, more appropriate selection of commodities, more stringent controls and supervision, and closer monitoring of the nutritional status of beneficiaries. (For greater detail, refer to the Mission's Title II proposal and FY 1982 ABS.) These program elements address major deficiencies identified in an in-depth evaluation (No. 80-2, dated November 1979, available from LAC/DP) of a prior Title II program.

In terms of nutritional impact on the target population, Title II foods will help add needed calories to recipient diets. The calorie gap has been demonstrated in various studies. A recent one shows, for example, that the total availability of calories per capita declined 20% betweeen 1976-1978, from 2,800 calories per day in 1976 to 2,267 in 1978.[4/] Title II corn and NFDM will be processed in the AID-supported

4/ Nutrition Information System, ANALISIS DE LAS HOJAS DE BALANCE DE ALIMENTOS DE COSTA RICA, PERIODO 1971-1978. San José: March 1981.

CARE processing plant, in combination with local soybeans, sugar and rice, to produce high caloric-content foods. The third Title II commodity, vegetable oil, also provides needed calories.

In terms of the impact on DESAF efforts to bring greater efficiency to the National Nutrition Program, illustrative examples of important steps taken in recent months include: (1) On the basis of high stunting rates, 10 cantons have been declared priority areas for targetted assistance; (2) DESAF is currently negotiating contracts with agro-industrial cooperatives for the production of low-cost local food products developed by CITA for the PAN; (3) DESAF has cut budget items for construction and personnel and the savings, as in the case of financial resources freed by Title II inputs, will be invested in productive activities. Beginning in 1982 DESAF plans to invest 350 million colons (approximately $18 million) over a four-year period in basic infrastructure and income-producing activities for the lagging Limón Province. (4) DESAF is proposing to the Ministry of Health that an impact evaluation of the school feeding program be carried out in 1982, to determine whether it merits continuation in its present form.

Relationship to the Mission's CDSS Strategy

Since 1975, the Mission's strategy in the area of nutrition has sought primarily to reach two principal objectives:

(1) Integrating feeding programs into a comprehensive, multi-sectoral approach to nutrition; (2) helping the GOCR direct attention and budgetary support to food research, technology, production and processing.

The Mission's ongoing Nutrition Loan has made great strides in the development of a systematic, integrated and multi-sectoral approach to planning, implementing and evaluating Costa Rica's National Nutrition Program. Indeed, the rationalization of the PAN being undertaken by DESAF is, in large measure, a direct result of this loan's activities.

An OPG to CARE/Costa Rica established a processing facility to manufacture nutritious, inexpensive foods, using soybeans grown in Costa Rica, for distribution through the PAN. The close ties between the CARE OPG and the Nutrition Loan, especially with regard to research and development of new food products, have produced important, fruitful results. Administered and supervised by the same implementing agencies as the CARE OPG and the Nutrition Loan, the current Title II program forms an integral part of the collaborative strategy between AID,CARE, and the GOCR to conserve hard-earned gains in nutrition among vulnerable, low-income groups during the current period of declining growth and financial austerity.

Thus, an extension of the Title II program is wholly consistent with and reinforces the Mission's efforts to: (1) provide incentives and outlets for increases in agricultural production through support for agro-industries (the CARE OPG is an example of this approach); (2) help the GOCR improve its policy formulation, development planning and financial administration in order to make more effective use of its scarce resources (e.g. the DESAF reform); and (3) avoid disruptive cut-backs in essential services to the poor.

Impact on Local Food Production

The PL 480 Title II commodities requested will not act as a disincentive for agricultural production. On the contrary, both corn and NFDM will stimulate the new soybean agro-industry since at present, the only market for locally grown soybeans is the CARE plant which processes the soybeans with Title II and other local commodities into final food products for the PAN. Furthermore, all three commodities requested are imported by Costa Rica as local production of them is insufficient to meet the country's needs. Thus, because Title II imports are not displacing locally produced commodities, their demand and utilization have no perceptible adverse effects on domestic production and marketing.

Storage and Distribution

Adequate storage is available at the Ministry of Health and the National Production Council warehouses operating under contracts with DESAF. These two entities also provide transportation and distribution to the end-use centers.

Proposed PL 480 Title II Assistance Levels

The Mission proposes a continuation of voluntary agency-administered Title II assistance at a level of $1.41 million in FY 1982 and $2.41 million in FY 1983.[5/] Commodity types and general program orientation will remain basically the same as described in the accompanying tables for FY 1982 and 1983. USAID/Costa Rica regards the proposed continuation as critical medium-term assistance to help prevent reversals in the gains made by Costa Rica toward the elimination of malnutrition.

5/ These levels include estimated ocean freight costs. The actual USDA commodity costs total $1.21 million in FY 1982 and $1.78 million in FY 1983. Even though the proposed assistance levels vary, the ration levels and recipient numbers for FY 1982 and FY 1983 will remain at the approximate levels of the current program. The difference between the proposed levels is due to the fact that because shipments for FY 1981 came in late, there will be surplus stocks on hand as of September 30, 1981. That surplus will be carried over to FY 1982.

P.L. 480 TITLE II

Mission Review of Operational Plan

The Mission has reviewed the multi-year Operational Plan prepared and submitted by CARE/Costa Rica last year and finds the general program orientation to be sound and appropriate. It is important to note that the plan incorporates recommendations contained in the 1979 in-depth evaluation of a prior PL 480 Title II program in Costa Rica. On the basis of the analysis done in that evaluation report, as well as more recent research findings and information generated by the AID Nutrition Loan, those recommendations remain valid. They include program elements such as (1) targetted take-home food programs for 12,000 pre-school children (and especially those between the ages of six months to three years) and 20,000 pregnant and lactating mothers who have no easy access to feeding centers; (2) feeding programs in nutrition centers and schools for at least 80,000 pre-schoolers; (3) primary school feeding for approximately 320,000 children; (4) increased CARE field inspection staff; and (5) incorporation of new evaluation/reporting elements. In addition, the Title II commodities (whole corn, vegetable oil and non-fat dry milk) requested for the program have been selected to complement local commodities. Two of them --corn and milk-- will be processed in CARE's low-cost extrusion cooking plant to improve their acceptability.

One of those final food products from the CARE plant, a beverage called horchata, has proven to be highly acceptable. The other processed food, a CSB-type product called Nutrisoy, has not fared so well. This was anticipated, however. In the program design Nutrisoy was to serve as an interim product until new, more acceptable foods could be developed by CARE and the University of Costa Rica's Food Technology Research Center (CITA). One of those new second-generation products, a ready-to-eat cereal containing Title II corn and local soybeans, rice and sugar, is about to be introduced into the program . Nutrisoy will be produced in lesser amounts and will be distributed to feeding programs that make good use of it owing to their having had prior experience with Title II CSB/CSM. Another new product, a milk extender containing Title II milk and local rice, will be introduced in the upcoming months, and a corn soup mix is expected to be ready for distribution in 1982.

These programmatic elements should result in more effective and efficient utilization and distribution of Title II foods to beneficiaries. The AER for FY 1982 which is being forwarded to AID/W is consistent with the Operational Plan and the expected uses of Title II commodities as ingredients for the new food products. Should any major changes or adjustments be required to adapt to new circumstances, CARE will be asked to prepare an addendum to the Operational Plan, detailing those modifications. At this moment, it appears likely that recipient numbers may increase in FY 1982 owing to the economic crisis. Schools are already reporting higher numbers of pre-schoolers arriving in school feeding halls. CARE and the GOCR's Family Assistance Agency will be checking the accuracy of these reports. If they are confirmed, CARE and the USAID believe at this moment that the substantial stocks of Title II commodities on hand at the beginning of FY 1982 the current program was approved last January and shipments did not begin arriving in country until the third quarter of the fiscal year, plus an additional reserve of 15% being requested in the AER, will be sufficient to meet the increasing demand.

CARE has reconfirmed that adequate storage facilities exist in Costa Rica and that the proposed continuation of the current program will not result in a disincentive to domestic agricultural production.