

PD-AAX-422

COSTA RICA  
ACTION PLAN FY 1987-88

BEST AVAILABLE

ACTION PLAN  
FY 1987 - FY 1988

USAID/COSTA RICA

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## PART I - STRATEGY AND PROGRESS SUMMARY

### Introduction

Costa Rica is a nation noted for its democratic tradition and concern for the welfare of its citizenry. It is also a nation emerging from an economic crisis.

The crisis was felt most severely in 1981 and 1982, when the country experienced negative GDP growth rates, declining real incomes, three-digit inflation, and suspended external debt payments. In response to the crisis, U.S. economic assistance levels for the country exploded to levels, which at \$ 641.3 million in four years (1982 through 1985), was more than three times the previous total level of economic aid dating back to the post-World War II period.

The bulk of these financial resources, and the policy leverage they afford, have been aimed at:

- Stabilizing the economy which deteriorated due to: skyrocketing oil prices, political turmoil in other Central American countries, and falling prices for primary export commodities; and structural factors in the economy, including excessive growth in public sector employment and expenditures and other economic distortions such as public sector participation in commercial enterprises through subsidiaries of the Costa Rican Development Corporation (CODESA).
- Assisting in restructuring the economy from an emphasis on public sector investment and import substitution policies to one which looks more to the private sector and exports to achieve long-term growth.

However, preserving Costa Rica as a model of democratic, broad-based development for the region is the primary rationale for U.S. assistance.

### Strategy and Progress Summary

USAID/Costa Rica's strategy emphasizes those recommendations of the National Bipartisan Commission on Central America (NBCCA) which apply to current constraints to development in Costa Rica. The four main thrusts of AID's strategy as presented in the FY 1987 CP comprise the Mission's overall program goals: economic stabilization, laying the basis for long-term growth, equity and broad participation in development, and democratic institutions and human rights.

Central to the strategy is maximizing the involvement of the private sector in sustaining economic recovery. Emphasis on the private sector touches every aspect of the USAID program because the dominant role of the public sector in Costa Rica has proven to be a constraint to development. Public sector demand for credit, for example, diverts limited capital resources from the productive private sector; and GOCR bureaucratic controls, especially in banking and customs systems, impede productive efficiency. Thus, the private sector is the only sound alternative for providing the jobs and foreign exchange required for economic and social stability within the context of supportive public policies.

Without progress in closely linked goals of stabilization and laying the basis for long-term growth, continued progress in the equity and democracy objectives of the strategy will erode in short order.

#### Economic Stabilization

USAID/CR's economic stabilization assistance is one input to the GOCR's economic recovery program. Our strategy, therefore, is to coordinate closely with the IMF, IBRD and commercial banks who are also providing assistance to the GOCR's program and, to the extent possible, complement the objectives they have established for their assistance. Thus, where the IMF's concern is short-term measures for achieving stabilization and the IBRD strategy focuses on structural changes such as tariff reform, AID assistance provides immediate balance of payments support while also working to establish the basis for long-term, broadly based economic growth.

Part of the Mission strategy is to leverage our assistance to continue policy dialogue on reforms aimed at eliminating the economy's structural problems which contributed to the current crisis and represent a constraint to long-term growth. In order to promote private sector development and expansion of exports, for example, the Mission has supported the IMF on exchange rate reform and has worked on other economic distortions in the public sector which operate as disincentives

to private sector productivity. To cement the progress achieved thus far in overcoming these structural problems, the Mission foresees the need for continuing economic stabilization assistance through the rest of the decade.

Since FY 1982, USAID has provided \$465.7 million in Economic Support Fund cash transfers to help satisfy the immediate demand of the private sector for importing raw materials and intermediate goods, and \$92.5 million in P.L. 480 Title I assistance for the importation of essential foodstuffs not produced domestically. Through covenants to ESF agreements, the Mission has complemented the conditionality of the IMF stabilization and the IBRD economic restructuring programs on measures which are prerequisite to stabilizing the economy. The GCCR has been in compliance with requirements such as unifying the exchange rate and maintaining it at realistic levels compared to other currencies; reducing public sector expenditures and deficits; renegotiating its external debt and reducing arrears; eliminating credit allocations and making more credit available to the productive private sector; establishing positive interest rates; and commencing the process of divesting the CCDESA subsidiaries.

Combined efforts of all parties are leading to successes. For example, in 1982, the first year of USAID balance-of-payments assistance to Costa Rica, the country experienced a 7.3% decline in GDP, a 108% increase in inflation (a result of strong exchange rate devaluation--319% during the 18-month period ending in December 1981), and a government deficit of 9.0%. Since then there has been a return to positive GDP growth rates in 1983; inflation is less than 15%; the government deficit as a percent of GDP decreased to less than 2.0% in 1985, and the exchange rate is stabilized via periodic adjustments. Overall, Costa Rica has been the only sound performer in the region in carrying out needed economic reform and stabilization measures.

#### Laying the Basis for Growth

As the economy stabilizes, long-term growth will depend on a shift to an economy which is export-led and oriented to new markets outside the Central American Common Market (CACM). This will be achieved by maximizing the productivity of the natural resource base (i.e., agriculture), while reviving and developing the private industrial sector to expand the productive base in areas where Costa Rica has a comparative advantage.

USAID is therefore assisting Costa Rica in moving away from the import substitution and parastatal enterprises models toward an economy with a diversified and expanded production base and markets, strengthened financial markets, expanded productive credit, and increased employment opportunities all leading to the increased domestic and foreign investment needed to bring about sustained growth.

Last year's Action Plan recognized, and further study by the Mission has confirmed, that a major shift in the structure of the country's productive base from agriculture to a light industry orientation is constrained by factors such as necessary changes in the policy environment which continues to provide high levels of protection to local industry and the availability of sufficient capital to finance such a shift. These constraints cannot be overcome in the relatively short run. Rather, the change must be gradual and not attempt to replace the past emphasis on the agricultural sector which takes advantage of Costa Rica's natural resource base and, in 1984, employed over 27% of the labor force. Over the short and medium term, agriculture will continue to require high levels of investment and provide significant employment opportunities, both of which make development of the sector a key element to economic stabilization and recovery.

Within this context the Mission will support both light industry and agribusiness strategies based on a market-led approach to selected export products which have identifiable potential for development and increasing export earnings in the short and medium term. The expectation, however, is that the shift in the productive base to greater reliance on non-traditional, non-agricultural exports will take relatively more time than our parallel effort in agriculture.

A successful transition from import substitution to export-led growth will require continuing USAID's policy dialogue and program/project activities focused on alleviating three broad categories of constraints which affect the ability of the private sector to fill its role in achieving sustained economic growth.

- Structural: participation of public enterprises in commercial ventures which are financially unviable, leading to an excessive drain on limited credit resources; policies which create disincentives to production (e.g., export taxes, subsidized prices and antiquated price support policies); and non-competitive and over-protected domestic industries.
- Financial: lack of sufficient credit for the productive private sector; scarcity of foreign exchange to satisfy import requirements; and an inefficient state banking system.
- Technical: limited management know-how for streamlining industry and measuring agricultural productivity; lack of expertise for penetrating foreign markets; and an untested export promotion structure.

Some of the Mission's major progress toward the laying the basis for growth goal has come from policy dialogue and project activities related to the financial constraints to export-led growth. For example, passage of a new Monetary Law in 1984 facilitated private banks' access to local

currency and foreign exchange credit. ESF agreements have required the maintenance of positive interest rates and a major reduction in the number of investments which receive subsidized credit, thereby increasing credit allocation on market-determined factors. In addition, the CODESA divestiture will help free up credit resources in the private sector, especially during tight monetary policies being pursued under the IMF Standby. The CODESA divestiture is also important because of the structural effect of moving the operation of major commercial enterprises from the public to the private sector.

USAID programs have also responded to the lack of adequate credit available through the national banking system by providing foreign exchange resources to private sector financial intermediaries and by establishing a special local currency credit line in the Central Bank. Through these mechanisms, approximately \$140 million has been made available to private sector producers since 1980.

There have also been policy improvements in the area of export and investment promotion. For example, the Costa Rican Coalition for Development Initiatives (CINDE), an AID-supported private organization, has played a key role in achieving passage of the Export Incentives Law and the Free Zones Law, as well as in the establishment of a National Investment Council, the development of an investment promotion strategy with overseas offices established to assist in implementing the strategy, and the promotion of a new agricultural development law. Partly due to USAID efforts, total commodity export earnings increased by \$59 million from 1982 to 1985, of which \$57 million were due to the increase in nontraditional exports outside of the CACM.

#### Spreading the Benefits of Growth

Due largely to a democratic government whose commitment to the social well-being of its people stands as a model for other nations, Costa Rica, with a population of about 2.5 million people, is a developing country which is faring well socially in comparison to many of its Latin America and Caribbean neighbors. Costa Rica has a well educated population--some 90% of its adult population is literate; the average life expectancy rate is almost 74 years; and its infant mortality rate is 18 per 1,000 live births.

Given the GCCR's model commitment and excellent progress to equity concerns in education and health services, USAID is emphasizing those equity aspects where our resources can have greatest and most immediate impact, such as in employment, housing, roads, higher education, and training. The USAID strategy also includes a modest role in rural development, population, and health and education activities aimed at ameliorating selected problems or improving services in those areas. Our underlying objective is to improve efficiency in the provision of services. USAID has had success in two experimental efforts--one in

housing and one in infrastructure--whereby construction work is contracted out to private sector firms. The results of these pilot efforts have been positive, and the World Bank and the Inter-American Development Bank have expressed interest in the model developed for transportation infrastructure projects.

#### Democratic Institutions and Human Rights

Costa Rica is a vibrant, functioning democracy. This was dramatically demonstrated in the February 2 presidential election in which some 80% of eligible voters cast their ballots. For weeks preceding the election, citizens created a festive atmosphere through their demonstration of support for their preferred candidate. There was even a special, unofficial, parallel election set up for children, with special polling places open to and operated by children.

Because its environment is conducive to promoting democratic goals and principles, Costa Rica is the host country for numerous regional activities, such as the conference of Central American bar associations, AID-sponsored graduate studies for law students, a permanent Center for Electoral Advice and Promotion, and AID-sponsored courses through the U.N.-affiliated Latin American Institute on the Prevention of Crime and Treatment of Offenders (ILANUD) for prosecutors and judges from throughout the region.

Because of these successes, AID's role in support of special activities aimed directly at promoting democracy in Costa Rica is limited. USAID activities include responding to targets of opportunity to strengthen institutions which serve as models for other Central American countries. In one case, the Mission is working with a local organization which reports on activities in the Legislative Assembly to expand its capabilities and involve more businesses and organizations in the legislative process. Training leaders and potential leaders, particularly under the CAPS program, and promoting community organizations through special development activities identified and implemented by Peace Corps volunteer as well as assistance to democratic institutions and cooperatives through PVC activities (e.g., AIFLD) also receive USAID support and contribute to achieving objectives established under this goal.

PART II -- PROGRAM PROGRESS AND IMPLEMENTATION PLAN

GOAL I -- Economic Stabilization

A. Statement of Goal

To assist the GOCR in following an annual credit, exchange rate, and fiscal program that is consistent with the low inflation, moderate economic growth, and export expansion necessary to lead the economy to full recovery, and ultimately to sustained economic growth with a significant reduction in the level of dependence on external economic assistance.

B. Introductory Statement

Since FY 1982, USAID has provided Costa Rica with close to \$560 million in balance of payments support through a combination of ESF and PL 480 Title I resources. We have also placed many conditions on our assistance such as a unified exchange rate, positive real interest rates, and a reduction of subsidized credit, and have achieved progress in policy dialogue on matters such as the Monetary Law and CODESA divestiture.

It must be stressed, however, that while AID is without a doubt a major contributor to these successes, the GOCR has also made a determined effort to extricate itself from an economic crisis and to reset the economy on a growth path. Further, AID has coordinated closely with the IMF and the World Bank whose assistance programs set conditions to the disbursement of their resources. The IMF is most directly concerned with economic stabilization per se, setting macroeconomic stabilization targets, whereas the IBRD focuses on economic restructuring such as reducing tariff protection. AID's interest in economic stabilization focuses on laying the basis for long-term growth, and covenants under our ESF program are designed not only to reflect this orientation but also to complement the IMF and IBRD programs. Targets and benchmarks established by our program, however, exclude broad targets such as decreased public sector expenditures to which our resources contribute but whose achievement does not totally depend on our assistance.

C. Objective Category: Stabilize Financial Structures

Reduce annual internal and external deficits.

Key Assumption:

The IMF balance of payments targets and projections prepared in August 1985 will not change significantly.

Performance Indicators:

1. Target: Reduce annual internal deficits.

Benchmarks:

- Divestiture of CODESA subsidiaries completed by the end of FY 1987.
- Agreement reached with GOCR by late FY 1986 on the method under which the CODESA holding company will no longer create, finance and operate subsidiaries.
- Elimination of price subsidies for basic grains during FY 1987.

2. Target: Reduce annual external deficits.

Benchmarks:

- GOCR will reduce its current account deficit to less than 6% of GDP by the end of FY 1988.
- A program of periodic adjustments of the exchange rate based on the value of currencies of major trading partner will be in place.

Policy Dialogue Actions

Building on achievements to date, emphasis on maintaining the exchange rate at a realistic level in comparison with other currencies, maintaining positive real interest rates, reducing interest rate subsidies, and reducing the number of special categories receiving interest allocations will be major factors in policy dialogue related to stabilization.

In addition to these areas, the key element of the Mission's policy dialogue will be the CODESA divestiture process. A two part focus is planned. First is a continued GOCR commitment to the divestiture of CODESA subsidiaries begun in FY 1985. The second part will be to reach and implement a solution on the future of the CODESA holding company (the umbrella under which the subsidiaries operate) which is politically acceptable to the U.S. government.

The Mission's objective is a solution under which the holding company no longer creates, finances or operates any subsidiary enterprise. This may be a new law rescinding the existing law which created CODESA, resulting in the closure of the holding company, or any number of other variations and options. However, with a new government coming into office in May, at this time we are unable to establish and commit

ourselves to a specific action and time frame for achieving that solution. Nevertheless, we are committed to defining a solution with a new government by late FY 1986, and to initiate required action by early CY 1987. Until agreement is reached, the Mission plans to emphasize divestiture of the smaller subsidiaries. In this way, the momentum of the divestiture process will be maintained while risk of the U.S. government is minimized. Also, it will permit the Mission to maintain a posture under which the GOCR will take the lead in the divestiture process.

The Mission recognized that, while it is primarily an economic restructuring program, the divestiture process is also a major political initiative the new GOCR administration will have to address. For this reason, and despite the commitment outlined above, we are concerned with the potential risk of political pressures to recreate or restructure the CODESA holding company in a manner that would allow the establishment of new parastatal enterprises. AID/W guidance/suggestions on how the Mission should approach this issue, therefore, is requested.

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Economic Stabilization and Recovery	Misc.	\$ 885,735,000
PL 480 Title I	PL I	\$ 156,500,000
CODESA Divestiture	*	LC \$ 250,000,000

\* Local currency-financed activity

Narrative

Successes to date in the Costa Rica economic recovery program have been numerous: the exchange rate has been unified and is being maintained at competitive levels in regard to other currencies; the annual inflation rate has decreased from over than 100% in 1982 to levels of less than 15% in 1985; the country has returned to positive GDP growth rates; and the deficit of the nonfinancial public sector has decreased from 14.3% of GDP in 1981 to less than 2% in 1985.

While the one-year period for the benchmarks from last year's Action Plan has not yet expired, we expect that they will be met. Specifically, we expect total expenditures of the Central Government will not grow as a percent of GDP; the Central Government will continue to reduce current account deficit; the GOCR will continue to receive sufficient external assistance to permit maintenance of required import levels; and the exchange rate will continue to be devalued at a real annual rate of 5%.

Last year's benchmark related to maintaining the volume of imports reflects the fact that Costa Rica remains dependent upon external assistance flows not only to finance a large balance of payments gap but also to avoid reductions in imports needed to maintain production and growth levels. This is likely to be the case at least through the end of the decade. The Mission strategy in this area is based on the planning figures provided by AID/W and plans to continue ESF at levels of \$150 million per year through the Action Plan period, and to continue PL 480 Title I at the somewhat reduced levels of \$19.5 million per year.

With an eye to longer-term growth, the Mission focus is on shifting from a public sector to a more private sector market oriented economy. Three major activities are involved in this effort. The first is the divestiture of CODESA subsidiaries, which absorb as much as 30% of the annual public sector credit requirements. Related to the divestiture of these subsidiaries is reaching agreement with the GOCR on a method under which the CODESA holding company will no longer create, finance or operate subsidiary enterprises. Third, the 1986 PL 480 Title I agreement calls for eliminating consumer price subsidies for basic grains, which will reduce public sector deficits by approximately \$2-3 million a year. Subsequent PL 480 agreements will seek to cut price supports for basic grain production, which are currently almost double those of international market prices. This is especially costly for the public sector in cases of surplus production, because under the current system, the government buys up the surpluses at the higher prices. USAID will look to shifting, in the medium term, to a system which more realistically responds to market considerations.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Economic Stab. and Recovery	150.0	-	150.0	-
PL 480 Title I	19.5	-	19.5	-

GOAL II -- Laying the Basis for Long-term Growth

A. Statement of Goal

That Costa Rica shift away from import substitution and parastatal enterprise policies toward an economy with a diversified production base (in agriculture and industry), strengthened financial markets, expanded productive credit, and greater employment opportunities required to achieve increased domestic and foreign investment and sustained growth.

Table 1

PROJECTS/TOTAL COST 1/  
LAYING THE BASIS FOR LONG-TERM GROWTH OBJECTIVES

Key: \* = Local currency activity    1 = primary objective    Total Cost = LOP thru FY 88

No.	Project/Activity Title	Total Cost (\$ millions) \$	Objectives						
			Stabilize Financial Systems	Promote Exports Sector	Strengthen Priv Sector	Incr Ag Prod	Incr Ind Prod	Incr Part Trg	
Continuing									
0194	Private Investment Corp (PIC)	21.000	1	X		X		X	
0187	Priv Sect Export Credit (COFISA)	10.000	1	X	X	X		X	
0223	Ag and Ind Reactivation (AIRR)	14.000	1	X	X	X		X	
*	Cent Bank Rediscount Facility	0.000	1	X	X	X		X	
TCIP	Trade Credit Insurance Program	100.000	1	X					
*	Priv Agric Adv Council (PAAC)	0.000		1	X	X			
*	Priv Invest/Exp Council (PIE) 2/	0.000		1	X			X	
*	CODESA Divestiture	0.000	1		X				
0212	Trg for Private Sector Devel	5.000	X		1				X
0190	Pol Plan & Admin Improvement	8.900	X	X	X				
*	Agric Export Expansion	0.000		X	X		X		
*	Coffee Technif & Divers	0.000					1		
0227	ACDI OPG	0.800						1	
PL1	PL 480 Title I	156.500						X	
New									
0235	Northern Zone Consolidation	12.000							X

1/ For projects/activities active in FY 1987.

2/ In process of negotiation.

## B. Introduction

The six mutually reinforcing objectives in this section are interrelated and ultimately contribute to laying the basis for long-term growth. Similarly, the projects which are presented in the section contribute to multiple objectives. To avoid repetition, therefore, each project is listed and described only in terms of its primary impact. However, for convenience of the reader, Table I lists all on-going projects which are associated with this goal, their life of project cost through FY 1988, and indicates all of the objectives to which they contribute. The numeral "1" indicates primary impact.

## C. List of Objectives

### 1. Objective Category: Export Promotion

Alleviate the structural and technical constraints which affect the private sector's ability to carry out its role in export-led growth.

#### Key Assumptions

- a) No major recession in the Costa Rican economy.
- b) The GOCR will maintain and continue to improve the current favorable business climate.
- c) Continued exchange rate adjustments will keep Costa Rican exports price-competitive in world markets.

#### Performance Indicators

- a) Target: Expand investment in the industrial export sector to take advantage of opportunities made available by the Caribbean Basin Initiative.

#### Benchmarks:

- Responsibilities for export and investment promotion will be clearly defined among respective GOCR entities.
- 3 - 5 foreign firms will establish operations annually in 1987 and 1988.
- Create a minimum of 3,000 new direct job opportunities in the export sector annually in 1987 and 1988.

- Exports of industrial products increase by \$30 million annually in 1987 and 1988.
- Exports to non-CACM markets expand by 9% annually in 1987 and 1988.
- Annual new foreign and domestic investment in industrial sector of is least \$26 million in 1987 and 1988.

b) Target: Diversify agricultural exports to foment sustainable economic growth and provide a cushion to changes in prices and/or demand for traditional export crops due to foreign exchange fluctuations.

Benchmarks:

- Reliable market information will be available to producers on a timely basis.
- Increase exports of 5 selected non-traditional agricultural crops from approximately \$15 million in 1984 to \$23 million in FY 1987 and approximately \$26 million in 1988.

c) Target: Develop a strong industry advocacy group to promote exports and represent agribusiness interests via-a-vis the GOCR.

Benchmark:

- Private Agricultural and Agro-industrial Council (PAAC) will be functioning, adequately staffed and respond to GOCR legislation that affects exports of non-traditional agricultural commodities.

Policy Dialogue

Definition and assignment of responsibilities for investment and export promotion among GOCR institutions is required to assure coordination of efforts among these institutions. Also, with the Monetary Law and the Export Contract in place, the Mission will focus on opportunities to promote improvements in selected areas which affect investment decisions such as transportation costs (rail, sea and air), the processing time (often six months or longer) for working capital loans from the state banks, the lengthy processing time in customs, and the time (currently averaging 40 days) it takes to secure dollars from the Central Bank to finance imports.

Projects

<u>Continuing:</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Investment and Export Promotion (PIE)	*	L/C \$ 9,334,000
-Private Ag. and Agroindustrial Council (PAAC) (Operating Expenses)	*	L/C \$ 852,000
-Agricultural Export Expansion Program	*	L/C \$ 16,845,000

\*Local currency-financed activity.

Narrative

To date, Mission support to export promotion activities has assisted in securing passage of a number of laws needed to contribute to a favorable investment and export environment. These include the Export Incentives Law, the Export Processing Law, the Free Zones Law, and the Monetary Law. In addition, the National Investment Council has been established, and an investment promotion strategy is in place. A Mission-financed local currency credit line is providing resources needed by the private sector to expand and increase productivity. The Mission is also finalizing a new agribusiness strategy with a focus on crop specific export programs based on an analysis completed for the Mission in 1985 on potential U.S. market share.

Since its inception in 1983, the Investment and Export Program (PIE) located in CINDE, has been the Mission's principal vehicle for promoting exports in Costa Rica. In 1985, as a result of establishing overseas offices in the U.S., PIE was able to change from a passive role (attending seminars, receiving trade and investment missions) to an aggressive search for foreign companies in industries where Costa Rica has a comparative advantage. Specific geographic target areas and likely product areas have been identified, and individual companies have been approached to bring Costa Rica to their attention as an investment possibility. Three offices were opened in the U.S. during the last half of 1985 and a fourth will be opened in 1986. Two European offices were opened, although one has subsequently been closed.

Achievements of the PIE program include a new awareness in Costa Rica of the need to generate a substantial increase in exports and the need to create an attractive environment for foreign investment in order to achieve this increase. As a result, modifications have been made in the incentives available to investors and exporters, customs operations have been improved as has cargo handling at the airport, and the banking system (public and private) is more responsive to the needs of the export sector.

In addition, the overseas investment promotion drive resulted in decisions by seven U.S. companies to invest in Costa Rica, creating a total of 900 new jobs. One European company has also made a commitment to invest. In addition, investment promotion efforts have played a role in decisions by companies already operating in Costa Rica to expand production which is expected to create another 1,000 jobs in the first half of 1986.

To complement the industrial orientation of the PIE program and to help stimulate domestic and foreign investment in the agricultural sector to increase non-traditional exports, the Mission has assisted in the formation of a private sector council (PAAC) whose role includes promoting policy dialogue and reform, promoting selected programs and projects, implementing an export promotion strategy, and managing a fund to finance relevant studies/activities.

Although only established in mid-1985, the PAAC has participated in the drafting and presentation of tax law reform that will stimulate agricultural and agroindustrial production, prepared a feasibility study on substituting "pejibaye" flour for corn in animal feed, and conducted four evaluations on issues related to increasing non-traditional agricultural exports.

The PAAC will also be the principal implementing entity for the Mission's new Agricultural Export Expansion Program, a highly focused effort to increase exports of specified non-traditional crops. The Mission's program, which includes studies, technical assistance, training, and credit is discussed further under the increasing agricultural production objective.

To facilitate agribusiness processing and packaging, as well as to promote "maquila", or drawback industry in Costa Rica, the Mission has provided some assistance in the development of free trade zones. Properly established and managed, free trade zones provide facilities, labor, and tax incentives to attract foreign manufacturers. As such, they represent a relatively inexpensive means of increasing foreign and domestic investment and generating employment. The GCCR has undertaken a series of actions to promote export processing zones in Costa Rica. A Free Zone law was passed and Free Zone regulations were written and put into effect. The Limón and Puntarenas Free Zones were declared operational, thus permitting Free Zones to be established in other areas of Costa Rica. In August, 1985, the Cartago Industrial Park was given Free Zone status, becoming the first successful Free Zone park in the Central Valley. The Mission is studying the various options available for the creation of a Free Zone park in San José and additional funding is planned to finance a series of feasibility studies on new free zones and other technical assistance.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
PAAC Operating Expenses	-	.210	-	.210
PIE Operating Expenses	-	2.029	-	1.555

2. Objective Category: Strengthen the Private Sector

Strengthen institutions which promote the ability of the Costa Rican private sector to respond effectively to new economic and policy expansion stimuli for export and market diversification.

Key Assumptions

- a) The GOCR will continue to improve the current favorable business climate.
- b) The private sector will respond to incentives despite political turmoil in Central America.

Performance Indicators:

- a) Target: Public sector involvement in commercial enterprises reduced.

Benchmark:

- The divestiture of 18 CODESA companies completed by the end of FY 1987.
- Agreement reached with the GOCR by late FY 1986 on a method under which the CODESA holding company will no longer create, finance and operate subsidiaries.

- b) Target: Increased productive credit availabilities for the private sector.

Benchmark:

- Increase the amount of credit available to the private sector under the local currency credit line by \$20.0 million annually in CYs 1987 and 1988.

- The private sector's share in banking system credit (to the public and private sectors) will increase by approximately 1.9% annually in CYs 1987 and 1988.

c) Target: Accelerated customs processing of imported goods and raw materials.

Benchmark:

- Computerized recordkeeping for the GOCR customs service initiated in 1986 to accelerate processing of imported goods and raw materials.
- Operational policies and procedures adapted in 1986 to correspond to privileges granted to export sector under the Export Contract, the new Agricultural Development law, etc.

d) Target: Development of the human resource and information base necessary to aid in private sector growth and the reorientation of the Costa Rican economy to private sector, diversified export-led growth.

Benchmarks:

- 21 long-term participants in U.S. training by FY 1987 and an additional 9 by FY 1988.
- 90 short-term participants in or completing training in the U.S. by FY 1987 and an additional 100 by FY 1988.
- 1,000 in-country trainees annually in FY 1987 and FY 1988.
- Reliable information on world markets available to private sector producers in a manner which will influence investment decisions.

Policy Dialogue

The Mission will continue the policy dialogue on the divestiture of the CODESA subsidiaries and, in FY 1986, will include conditionality requiring an agreement with the GOCR on the future of the CODESA holding company which is acceptable to the U.S. government.

Projects/Programs

<u>Continuing:</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Training for Private Sector Development	515-0212	\$ 5,000,000 LC\$ 3,465,000
-Economic Stabilization and Recovery	Misc.	\$250,000,000
-Local Currency Credit Line	*	LC\$150,000,000

Narrative

Maximizing the involvement of the private sector in order to achieve sustained growth via diversification of exports and markets is necessary because the public sector in Costa Rica has proven to be a constraint to development.

In order to exert its economic leadership, the productive private sector needs timely access to raw materials, intermediate goods, construction materials and spare parts required for production. The USAID program will, therefore, continue to require, as part of its ESF agreements, that the Central Bank make available to the private sector an amount of dollars equivalent to that provided by AID. In addition, the Trade Credit Insurance Program (TCIP) will continue to operate in Costa Rica, affording the private sector immediate access to dollars for vital imports of raw materials and other productions inputs. Assistance to improve the GOCR customs service to accelerate import clearance will be modest.

To assist the private sector satisfy its credit requirements, the Mission will continue to provide both dollar and local currency credit for production purposes. During the Action Plan period, the Mission will channel the local currency equivalent of an additional \$40 million in credit to the private sector primarily through private banks. Another \$14 million in credit will be provided under the Agricultural and Agroindustrial Reactivation Rediscount Facility. USAID will also continue to provide credit through disbursements under ongoing projects with the PIC and COFISA. (These are discussed in more detail under the Financial Structure objective).

The CODESA divestiture will also strengthen the private sector. Originally designed to minimize public sector participation in new ventures, CODESA has instead taken a majority or sole owner position in many enterprises. For a variety of reasons, these enterprises have accumulated substantial financial losses. The result has been that CODESA subsidiaries have been forced to borrow heavily to continue operations. It is expected that the local currency supported CODESA divestiture will be completed by the end of FY 1987, resulting in the closure of a number of economically unviable firms. Also, in accordance

with an agreement to be reached between the USG and GOCR, during FY 1987 steps will be taken to limit the future role of the CODESA holding company and, therefore, its considerable impact on the economy. A strong private sector also requires a favorable climate with a clear and concise legal framework for exporters and domestic and foreign investors. To help engender this climate, the Mission will continue to support PIE, PAAC and CINDE programs oriented to establishing an attractive commercial climate.

Finally, the private sector requires a strong human resources base. While Costa Rica has a well educated population, the Training for Private Sector Development project is providing a range of specialized programs for Costa Ricans in private enterprise, banking, and institutions of higher learning -- all of which are intended to raise the productivity of the private sector. To date, in-country training for approximately 1,400 Costa Ricans has been provided in a variety of areas. During the Action Plan period, the program will also provide for long and short-term training in the U.S., as well as the continuation of the in-country training.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Training for Private Sector Development	.500	-	-	-

3. Objective Category: Increase Agricultural Production.

Increase production of non-traditional export crops, while maintaining and/or increasing foreign exchange earnings for traditional crops.

Key Assumptions:

- Normal climatic conditions will prevail.
- Restrictive trade legislation will not be enacted by Costa Rican trading partners.

Performance Indicators:

- a) Target: Increase production of non-traditional export crops.

Benchmark:

- Exports of five existing non-traditional products increased by a total of approximately \$8.0 million in CY 1987 and an additional \$4.0 million by the end of CY 1988.
- Four projects involving new non-traditional export crops started in CY 1987, and two additional projects involving new export products started in CY 1988.

b) Target: Help prevent a reduction in coffee production as result of coffee rust.

Benchmarks:

- Net yields in coffee production will not decrease due to coffee rust.
- 3,600 hectares of coffee land technified and 868 hectares diversified by end of CY 1987.
- 1,900 additional hectares of coffee land technified and 632 additional hectares diversified by end of CY 1988 (a total of 10% of land owned by small farmers and planted in coffee will be affected by this effort).
- 95 hectares for coffee plant nurseries planted by CY 1987, and an additional 106 hectares by CY 1988.
- Annual foreign exchange earnings from coffee exports will not fall due to decreased production.

Policy Dialogue

Policy dialogue will focus on two factors which will influence the ability of Costa Rican growers to improve productivity and expand the volume of agricultural exports, particularly of non-traditional commodities, to world markets: access to adequate levels of credit and the elimination of price supports as production incentives, relying instead on the adoption of new technology to increase output.

Projects/Programs

<u>Continuing:</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Agricultural and Industrial Reactivation	515-0223	\$14,000,000
-ACDI OPG	515-0227	800,000
-Coffee Technification and Diversification.	*	LC\$20,000,000
-Agricultural Export Expansion Program	*	LC\$16,845,000

Narrative

Although the agricultural sector has historically been the basis for economic growth in Costa Rica, the limits on overall productive capability as well as the demand in world markets for agricultural products have suggested to the Mission that a shift in the production base to the industrial sector is necessary to achieve sustained growth. Such a shift, however, is viewed as a gradual, long-term process because the existing industrial sector is relatively small and will require significant levels of investment--implying a dependence on foreign investors--to expand and produce at a level that is competitive in world markets.

While this shift is long-term in nature, the need to stimulate growth in the immediate term cannot be overlooked. The agricultural sector has a key role in this regard because export production can be expanded relatively quickly and the expansion can be financed largely through the mobilization of domestic investment.

The Mission, therefore, has developed an agricultural export expansion strategy with a focus on non-traditional export crops as a means of diversifying production, generating employment and increasing foreign exchange earnings to provide a cushion against price and demand fluctuations for traditional export crops (coffee, sugar, bananas and cocoa). It is a short to medium term approach which will parallel our efforts to expand productivity in the industrial sector.

The strategy is a market-led program for selecting non-traditional agricultural crops which have been identified as having export potential. It consists of three interrelated parts which can be initiated concurrently. Resources planned for the program will be primarily local currency, although dollar funding from PPAI and PD&S will also be required and will finance credit, technical assistance, training and feasibility studies.

In the short-term, the program will focus on increasing production of five crops which are currently being grown, for which the export market is known to be expanding and where investment can have an impact in less than two years. The crops tentatively identified for this part of the program are cut flowers, ornamental plants, strawberries, melons and mangoes.

The second aspect of the program will examine the production of new crops which can have investment results in slightly more than two years. The specific objective is to identify vegetable crops for which two projects for export of fresh produce and two projects for export of frozen products can be initiated by CY 1987, with an additional two projects initiated during CY 1988.

The third aspect of the program will be on non-traditional products for which some investment activity is underway and which have a three to eight year requirement to reach maximum levels of foreign exchange generation. Areas currently being considered for this part of the program include aquaculture and salt water fish and specific types of cocoa. As appropriate, other opportunities will also be examined for inclusion in the program.

While diversification activities are taking hold, Costa Rica will remain dependent on coffee as its major export earner. Coffee production, however, is threatened by coffee rust. In response, the Mission will be continuing the implementation of the local currency-financed Coffee Technification and Diversification project which disseminates improved technology to enable coffee producers to overcome coffee rust. To date, 1,680 hectares on 1,878 small farms have been replanted with improved coffee varieties (approximately 80% of coffee farmers in Costa Rica plant less than 1 hectare of coffee)). Nursery stock of improved varieties is also being developed. Finally, the project is encouraging small farmers to plant marginal land in macadamia, cacao, cardamon, and other crops to diversify production and rely less on coffee as a single income crop.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Agricultural Export Expansion	-	7,525	-	7,520
Coffee Techn. and Diversification	-	5,900	-	5,900

4. Objective Category: Increase Industrial Production.

Increase output of ongoing industrial enterprises and introduce new industry into Costa Rica.

Key Assumptions:

- Costa Rica will maintain and improve its stable and favorable investment climate that attracts foreign and local investors.

- Restrictive trade legislation will not be enacted by Costa Rica's trading partners.

Performance Indicators:

- a) Target: Increase output of existing industrial enterprises.

Benchmarks:

- Increase export earnings by existing non-traditional export industries (agro-industry, textiles, electronics, manufacturing) by \$15.0 million per annum in FY 1987 and FY 1988.

- b) Target: Introduce new industry into Costa Rica.

Benchmark:- Increase foreign and domestic investment in Costa Rica by at least \$26.0 per annum FY 1987 and FY 1988.

Projects/Programs

The projects with greatest impact on this objective are listed under the "Stabilize Financial Structures" objective.

Policy Dialogue

Given the recent changes which have improved the environment for attracting investment and increasing industrial production in Costa Rica--such as the Monetary Law, the Export Contract and the Free Zone law--no specific new policy dialogue agenda is planned. The Mission will, however, respond to initiatives that threaten the current, positive environment.

Narrative

The industrial sector in Costa Rica is characterized by relatively small enterprises that were developed in response to the import substitution policies and the high effective tariff protection established to promote trade within the CACM. Consequently, many industries are inefficient and non-competitive in unprotected world markets. The Mission will continue to encourage reforms to improve competitiveness such as tariff reductions and appropriate exchange rate policies, but our efforts will focus more on expanding exports through the attraction of new investment and strengthening services needed to increase exports such as customs reform. CINDE, through the PIE program, will be the principal vehicle used by the Mission to achieve this objective.

USAID will continue to provide credit via the Central Bank local currency credit line and through private financial intermediaries. In

addition, the Trade Credit Insurance Program will provide a mechanism to finance imports of goods and materials required for production.

The divestiture of the CODESA subsidiaries will also promote expanded industrial production because, by moving the public sector from involvement in commercial enterprises, the operation of the involved enterprises will be made based on profit criteria which, if not possible, will lead to the liquidation of those enterprises. More importantly, the demand for credit by CODESA will be eliminated, thereby increasing credit availability to the productive private sector and the allocation of that credit on a rational market oriented basis.

Budgetary Impact:

Discussed in the "Stabilize Financial Systems" section.

5. Objective Category: Stabilize Financial Systems

Alleviate the financial constraints which affect the private sector's ability to fill its role in export-led growth.

Key Assumption

- The BCCR will maintain a rational credit policy beneficial to the economy as a whole.

- Adherence to targets established in the IMF Standby will permit expansionary fiscal policies.

Performance Indicators:

Target: Improve the ability of the private banks and financial institutions to meet private sector productive credit demand.

Benchmarks:

- Increase net local currency credit availability to the private sector by \$20.0 million per year in FY 1987 and FY 1988.

- Net assets of private banks will increase by amounts such that the BCCR will not be constrained in channeling resources to these banks.

Policy Dialogue

Seek targets of opportunity to encourage improvements in the Costa Rican banking system, specifically in terms of reducing the almost monopoly control of the state banks over the system, by supporting changes that will expand the role of the private banks and allow them to be more competitive with the public banks.

Projects/Programs:

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Private Investment Corporation (PIC)	515-0204	\$ 21,000,000
-COFISA	515-0187	\$ 10,000,000
-BCCR Local Currency Credit Line	*	\$150,000,000
-Agricultural and Indust.Reactivation	515-0223	\$ 14,000,000
-Trade Credit Insurance Program	n.a.	\$100,000,000

\*Local currency-financed activity.

Narrative

A Mission analysis of the financial intermediation situation undertaken in 1985 concludes that the best way to strengthen the banking system and support export-led growth is to foster competition between the state and private banks. Unfortunately, existing legislation and policy favor the state banks; for example, the legislation prohibits private banks from accepting demand deposits, which also has the effect of holding down net assets and, thus, the ability to access rediscount facilities available at the Central Bank.

USAID has recently learned that the World Bank may be providing financing to Costa Rica which will be conditioned on reforms in the banking sector. In the policy area, therefore, the Mission will limit its own efforts to exploring possibilities for improving the position of private-sector banks vis-a-vis the state banks without attacking major legislation head on. A possible example might be negotiating with the Central Bank to shorten the length of term deposits, the private banks' main resource, from six months to three months. This action should increase the amount of funds deposited with private banks by 10-20%, thus providing the equivalent of an additional \$3 to \$7 million for credit programs. More important, it would be an important step in expanding the role of the private banks in serving business needs.

In support of these policy concerns, the Mission's major activity will be implementing the existing financial intermediation portfolio and strengthening the institutions through which the credit is channelled. The portfolio includes local currency and dollar resources,

with the majority being in the local currency credit line at the Central Bank. The equivalent of an additional \$20 million in FY 1987 and again in FY 1988 is planned to increase this facility. To date, four public and eleven private banks have utilized the facility, providing credit to over two hundred companies.

On the dollar side, project funds were used in 1984 to create a Private Investment Corporation (PIC) which acts as a merchant bank, or catalyst, in developing projects which will generate foreign exchange earnings. An important objective of the PIC is to assure the continued availability of medium and long-term project financing and to generate sufficient earnings to carry out other merchant banking functions. To date, the PIC has approved 13 loans totalling \$10,7000,000.

In 1982, the Private Sector Export Credit Project was developed in response to the productive private sector's liquidity crisis. Implemented by COFISA, a private financial institution, project funds are being utilized to provide credit to export-oriented companies and thus contribute to the reestablishment of dynamic growth in the Costa Rican economy. Under the project, COFISA has approved loans totalling \$5,000,000.

The Agricultural and Industrial Reactivation Project, to be initiated in late CY 1986, will establish a rediscount facility in the Central Bank to finance medium to long-term credit (2-7 years) for modernization and expansion of existing industrial and agroindustrial enterprises. The project is based on the Mission's strategy to strengthen the private sector by providing financing needed for basic production.

A final dollar resource is the Trade Credit Insurance Program, under which the U.S. government provides guarantees for short-term credit from U.S. commercial banks to participating Central American countries. In FY 1985, \$100.0 million was allotted to Costa Rica. The first \$25.0 million allotment, made available in February 1985, was used by the Central Bank for trade credit. The additional \$75.0 million in guarantee authority, made available in September 1985, is being passed on by the Central Bank to local private banks for providing guarantees to transactions involving private importers. Credit is provided for the importation from the U.S., by the private sector, of raw materials, construction materials, intermediate goods, equipment and spare parts required for production and services required to facilitate production or other sources of foreign exchange such as tourism.

In a more modest way, USAID will also help contribute to an improved banking system by training provided to bank managers under the Training for Private Sector Development project.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Ag. and Indust. Reactivation	6,500	-	2,500	-
Central Bank Rediscount Facility	-	20,000	-	20,000

6. Objective Category: Increase Participant Training

Increase the number of U.S.-trained Costa Ricans who form part of the private sector human resource base and whose training will serve to further strengthen the Costa Rican private sector.

Key Assumptions: None

Target: Development of the human resource base necessary to aid in private sector growth and the reorientation of the Costa Rican economy to private sector, export-led growth.

Benchmarks:

- 21 long-term participants beginning U.S. training by FY 1987 and an additional 9 by FY 1988.
- 90 short-term participants beginning and/or completed training in the U.S. by FY 1987 and FY 1988.

Policy Dialogue: None

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Training for Private Sector Development	515-0212	\$ 5,000,000 LC\$ 3,465,000

Narrative

The Training for Private Sector Development project provides a range of specialized programs in three areas which are designed to raise the productivity of the private sector and improve competitiveness in world markets. In the banking sector, training focuses on improving the technical capacity of management level personnel with the objective of first identifying bottlenecks in providing efficient services to the private sector and, then, taking the necessary steps to eliminate those bottlenecks.

Training in the private enterprise sector is intended to strengthen technical and management capabilities of private sector producers who will spearhead the export-led growth strategy. Training will include introduction to new technologies, improved management techniques, marketing and export strategies.

At selected institutions of higher learning, training will be provided for faculty involved in teaching students in areas that will be key to expanding private sector productivity. This will primarily be in the field of electrical engineering because of the potential role of the electronics sector in the industrial development of Costa Rica. Other areas include industrial engineering, food technology, business administration and economics.

To date, all training under the project has been in-country. However, during the Action Plan period, the program will also provide for long and short-term training in the U.S.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Training for Private Sector Development	.5	-	-	-

GOAL III - Equity and Broad Participation in Development

A. Goal Statement

To support Costa Rica's model level of commitment to equity for its citizenry through improved quality and efficiency in its efforts to improve the employment, income, and social needs of its population.

B. Introduction

The projects presented in this section contribute to multiple objectives. To avoid repetition, therefore, each project is listed and described only under its objective of primary impact. However, for convenience of the reader, Table 2 lists all projects included in the section, their total cost through FY 1988, and indicates all of the objectives to which they contribute. The numeral "1" indicates primary impact.

C. List of Objectives

1. Objective Category: Increase Employment

Create new employment opportunities as a result of A.I.D. export expansion activities, and shelter and infrastructure programs.





Key Assumptions:

a) AID's banking and export promotion programs will have a positive impact on Costa Rica's economy.

b) Policies and programs to encourage the development of employment opportunities will be supported by GOCR and Private Voluntary Organizations.

Performance Indicators:

Target: 45,000 new jobs created between 1986 and the end of 1990.

Benchmarks:

- A minimum of 3,000 new direct jobs and 6,000 new indirect jobs created each year for FYs 1987 and 1988 by Mission supported export expansion programs.
- 2,500 jobs provided each year in FYs 1987 and 1988 under housing programs.

Policy Dialogue:

No policy dialogue agenda is planned for this objective.

Projects/Programs

See Table 2 for a listing of the 15 projects/activities which impact on the increasing employment objective. However, there are no projects whose primary purpose is employment.

Narrative

The most direct way of spreading the benefits of growth is through employment. While Costa Rica does not have a severe unemployment problem (unemployment is approximately 6.0%), an additional 25,000 jobs are needed annually to keep pace with an expanding workforce.

The Mission is promoting job creation as the direct and indirect results of our programs geared to expanding export production, investment and markets. Infrastructure development, particularly in housing, will also be a major factor in increasing employment and will receive considerable Mission support. In the coming months, the Mission will be taking a closer look at the role of micro-enterprises in the Costa Rican economy and at whether a program in that sector might be appropriate. From what we know already, micro-enterprises generate considerable employment in Costa Rica: approximately 15,000 owner-managed workshops

employ 75,000 workers. Credit to micro-entrepreneurs to expand production could therefore be an additional mechanism for increasing employment.

Budgetary Impact

No direct budgetary impact.

2. Objective: To Expand Access to Improved Housing

Reduce the current gap of 125,000 units in low and medium income housing via the establishment of a financially, self-sustaining public/private sector system which addresses shelter requirements.

Key Assumptions

a) Bipartisan commitment can be forged among policy makers to allow technical and financial criteria to dictate mid-and long-term shelter policy and strategy.

b) Organization of the private sector and its increased investment is adequate to build housing units at a rate which gradually reduces past deficits.

c) Significant subsidy assistance from GCCR for housing purchases will not be available.

Performance Indicators

Target: Increase annual housing production from 14,000 units in 1984 to 26,000 annually after 1990.

Benchmarks:

- Adoption of a national plan on housing policies and implementation as of strategy in 1987.
- Revision and unification of national housing laws and regulations in 1987.
- Improved integration of public sector planning and budgeting functions to support financing of infrastructure services in 1988.

Policy Dialogue

The principal policy dialogue item in the housing sector is on the reorganization of the existing national housing finance system through a new law to create a central mortgage bank with majority private sector representation. Planned Mission support in capitalizing the bank will contingent on satisfying this condition.

Three other policy dialogue issues the Mission will be treating are consolidating and establishing a uniform finance policy for public housing insitutions, limiting the public sector's role to policy formulation and development of minimum building standards and land use regulations, and controlling transfers or subsidies to avoid distortions in the national finance market.

Projects/Programs

<u>Continuing:</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Central Mortgage Bank	*	LC\$ 50,000,000
-Private Sector Low Cost Shelter	515-HG-007	\$ 20,000,000
-Local Currency Financed Shelter Activities	*	LC\$ 14,600,000

\*Local currency-financed activity.

Narrative

The Mission's housing portfolio is a direct response to one of the principal recommendations of the NBCCA. Ongoing programs have been aimed principally at financing housing activities and, when the private sector has been contracted for various construction phases, results have been excellent. Policy dialogue has also been successful as evidenced by less GOCR use of subsidies for housing and increased acceptance of lower building standards to meet the ability more people to purchase homes, and the revitalization of the private sector housing finance system (savings and loan associations).

The latest shelter assessment, however, has identified constraints to meeting national shelter requirements which include excessive public sector participation in producing housing units with inadequate attention to policy coordination and defining lines of authority and responsibility, insufficient financial resources devoted to construction, and the inappropriate use of subsidies and unrealistic cost recovery schemes to assist not only indigent families, but also income groups who can pay their own way.

Over the next three to five years, AID's direct shelter financing role will be reduced and our emphasis will shift to institutionalizing the achievements attained under the existing housing programs, and an emphasis on full cost recovery of mortgage payments.

The centerpiece of AID's strategy is the creation of a central mortgage bank operation, controlled by the private sector, which is empowered to issue bonds or mortgage certificates and to rediscount mortgages to facilitate reinvestment of housing financing in new operations. The central mortgage bank would mobilize financial resources

(both compulsory and voluntary) for housing and basic services construction.

The adoption of a set of national housing policies and revision of the existing housing code is expected to consolidate the shelter sector in terms of program activities, institutional responsibilities regarding target groups to be served, and terms and conditions of financing established within the context of a national housing finance program.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Central Mortgage Bank	-	20.0	-	20.0
Technical Assistance/Training Activities (PD&S)	.125	-	.125	-

3. Objective Category: Expand and improve infrastructure.

Increase, rehabilitate and maintain transportation infrastructure, especially that which links produce and processed goods to markets.

Key Assumption

GOCR policy makers will understand the relationship between adequate transportation infrastructure and cost of exporting commodities, and commit resources to improve basic infrastructure.

Performance Indicators

Target: Private sector enterprises used for contracting, administering and implementing road construction and maintenance services.

Benchmarks:

- Two-year maintenance of 80 Kms. of paved and unpaved roads in Costa Rica's Central Zone completed by early FY 1987.
- Rehabilitation and two-year maintenance of 100 Kms. of unpaved roads in southern Costa Rica completed by early FY 1987.
- Construction of 110 Kms of new farm-to-farm roads in Costa Rica's Northern Zone completed by early FY 1988.

Policy Dialogue:

The Mission will utilize the results of its pilot program involving total private sector responsibility for contracting, administering and implementing road construction activities to urge the GCCR to adopt this methodology. The result will be a structural change in public sector employment policy, and vehicle purchase and maintenance costs.

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Northern Zone Infrastructure Development	515-0191	\$ 14,700,000 LC\$ 6,221,000
-Road Rehabilitation and Maintenance	*	LC\$ 29,802,000
 <u>New</u>		
-Northern Zone Consolidation	515-0235	\$ 12,000,000 LC\$ 6,000,000

\*Local currency-financed activity.

Narrative

The Mission's road improvement activities are contributing to the NBCCA objective of expanding and improving infrastructure. The Northern Zones Infrastructure Development project, however, preceded the NBCCA recommendation. Its main purpose is to complement other AID funded activities in the Northern Zone and to stimulate agricultural development in an underdeveloped area of the country.

The local currency-financed Road Rehabilitation and Maintenance activity, directly responds to the NBCCA recommendation for improved infrastructure. In this pilot project, contracts for maintenance and rehabilitation are being awarded to private contractors in a process which managed by a private association of road contractors. The results have been dramatic. Private sector road maintenance to date has outstripped public sector performance to the extent that the model has captured the interest of the IBRD and the IDB which may consider it for potential application in future loans.

Determining the location of future road improvement activities will give preference to areas where production for export-expansion and shelter activities are taking place. Should either the IBRD or the IDB adopt the model in future road programs, the Mission will consider using ESR local currency to complement those resources and achieve greater institutionalization of the model.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Northern Zone Consolidation	2.5	3.0	9.5	3.0
Road Rehabilitation and Maintenance	-	10.0	-	10.0

4. Objective Category: Reduce Growth of Population

Reduce population growth in order for Costa Rica to continue its progress towards meeting the basic needs of the populace, particularly in the areas of health, education and employment.

Key Assumptions

a) Policy makers will apply lessons learned about the important links between population and development.

b) The public and private sector entities involved in family planning will continue to actively promote family planning among all age groups.

Performance Indicators:

Target: Reduction of the crude birth rate from 30.6/1000 in 1984 to 29/1000 in 1988.

Benchmarks:

- 135,000 couples using contraceptives available through public and private sources by 1988, representing an increase of approximately 20% over 1983 levels.

- 25,000 couples obtain contraceptives through

Projects:

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Family Planning Self-Reliance	515-0168	\$2,500,000

Narrative

Under the Family Planning Self-Reliance Project, the Mission has provided support to the Costa Rican Demographic Association, a private sector organization, to help revitalize and expand family planning services through public and private sector activities.

The Mission's assistance concentrates on increasing access to contraceptive commodities through a Contraceptive Social Marketing (CSM) program, which provides products at a subsidized price through commercial channels. Other activities covered under the Project have been training for public sector service delivery personnel, selected research project aimed at collecting baseline data on the national program, and projects to improve the quality and efficiency of the service delivery. In addition, small-scale, discrete local currency or dollar-funded activities may be designed to complement the ongoing project.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
P D & S	.050	-	.050	-

5. Objective Category: Improve Health Care and Services

To help the maintenance of current excellent levels of health indicators, taking into account rising demand and static or shrinking resources, by targeting specific limited scope activities towards improved efficiency measures in the health sector.

Key Assumptions

a) The economic improvements of the past two years will not be viewed by GCCR as an end of the crisis which strained resource for health services.

b) The Social Security Institute (CCSS) will not return to its uncontrolled spending patterns as in the past and administrative reform measures will be fully institutionalized.

Performance Indicators:

Target: Public health sector performance will be quantified in terms of efficiency indicators (cost/benefit or cost/effectiveness) as well as the traditional health status indicators.

Benchmarks:

- 30 mid and senior level administrative personnel trained in systems management, information systems, and hospital management by 1988.
- System for service demand projections in place by 1987.
- Hospital and ambulatory cost systems set up on cost-benefit and cost-effectiveness criteria by 1987.

Policy Dialogue

The focus of policy dialogue will be on fostering an understanding that a cost-effective approach can also be the best means of better serving the patient population, and on encouraging policy makers to look at the appropriateness and constraints of privatization (contracting out) of services such as production of pharmaceuticals and laundry services for hospitals and clinics.

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Health Services Support Loan	515-0203	\$ 10,300,000

Narrative

Given that Costa Rica's overall health statistics are among the best in the Third World and comparable to those of many industrialized countries, e.g. an average life expectancy of almost 74 years and an infant mortality rate of 18 per 1,000 live births, the Mission's principal role in the health sector is to support improved efficiency in targeted areas such as administrative and managerial improvements.

Under the Health Services Support Project, the Mission is helping to stabilize the financial position of the Social Security Institute (CCSS) and to improve procurement practices and to rationalize use of medications and prescriptive drugs. In addition, the CCSS is the major provider of curative health care services throughout the country, with the responsibility for administering almost 75 percent of the

financial resources allocated to the health sector and providing services to approximately 92 percent of the population. Therefore, assistance in financial and administrative reform is being provided by the Policy, Planning and Administrative Improvement (PPAI) project which has already achieved the creation of a budget to control costs, a reduction in expenditures for purchases of supplies, and an increase in the return on investments.

In order to gain perspective on other possible areas within the health sector which could benefit from limited interventions by the Mission, a sector overview was conducted in November 1985 which made specific recommendations regarding priority areas for attention. From the suggested activities, the Mission has carefully selected several which are consistent with our ongoing goal of improved efficiency and which will be funded through both dollar and local currency from PPAI. These planned activities are: (1) technical assistance to institute a process to identify service delivery costs and costs variations on an ongoing basis; (2) training senior and mid level management personnel in financial management, information systems and program management; (3) assisting in operations research towards specific, measurable results in improvements in service delivery; and (4) technical assistance to set up a continuous system to project demand for services on demographic and epidemiological information.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
P D & S	.050	-	.050	-

6. Objective Category: Improve Educational Opportunities

Improve educational opportunities through selected activities aimed at filling specific gaps in the system and at drawing the economically disadvantaged into the secondary education level and beyond.

Key Assumptions

a) The GOCR will continue its policy of making education the major public sector investment.

b) The National Assembly will pass legislation permitting the new Regional Agricultural School to be established in Costa Rica.

Performance Indicators

a) Target: 1,000,000 new secondary school textbooks in the classroom by July 1988.

Benchmark: 250,000 secondary texts printed and placed in schools by mid-FY 1987.

b) Target: Quality of multigrade classrooms upgraded by FY 1988.

Benchmarks:

- Physical improvements completed on 75 multigrade classrooms in each of FYs 1987 and 1988, representing approximately 12% of all multigrade classrooms in Costa Rica.
- Study of curriculum materials needed for multigrade classrooms completed by second quarter of FY 1987.
- In-service teacher training workshops for multigrade classroom teachers completed by first quarter of FY 1988.

c) Target: Facilities and staff of the Regional Agricultural School for the Humid Tropics in place to accept the first class of students in January 1988.

Benchmarks:

- Land acquisition completed by September 1986.
- Construction initiated in late CY 1986.
- Curriculum developed by early CY 1987.

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Agric. School for the Humid Tropics	*	LC\$ 92,000.000
Primary School Textbook Program	*	LC\$ 2,650,000
 <u>New</u>		
Secondary School Textbook Program	*	LC\$ 4,000,000
Multigrade School Improvement	*	LC\$ 2,000,000

\* Local currency-financed activity

Narrative

Largely as the result of GOCR commitment to this sector, education is generally of very high quality in Costa Rica, as exemplified by the country's 90% literacy rate. Therefore, unlike other developing countries, there is no major traditional role for USAID in basic education. The Mission, therefore, will focus assistance in two educational objectives.

The first is supporting private institutions of higher learning which offer an alternative to public education. USAID has provided local currency endowments and library assistance to several private institutions, as well as contributing to a local scholarship fund. Our major activity, however, is the establishment of the Regional Agricultural School for the Humid Tropics.

The purpose of the project is to produce a professional human resource base with the practical and educational experience needed to address agricultural production problems associated with the humid tropics of Central America and Panamá. The college is planned for a student body of 400 and faculty and staff of 50 when it reaches full operation. GOCR legislative approval for the project is expected by the end of April, 1986.

The second form of assistance is helping fill some gaps in basic education through the use of local currency and limited dollar resources under PD&S or the Policy Planning and Administrative Improvement project. In order to help the Mission determine how to gain the greatest impact for limited amounts of funding, an education overview and action plan document was prepared in June, 1985. The overview identified several potential areas for action, of which the Mission has selected three: expansion of the textbook program; upgrading multigrade classrooms; and investigating demand for and possible productive linkages between vocational schools and the private sector. In accordance with last year's Action Plan, USAID has already funded a local currency primary school textbook program under which local private firms have printed one million textbooks for grades one through three.

Budgetary Impact

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Agric. School for the Humid Tropics	-	16,000	-	-
Secondary Textbook Program	-	2,400	-	1,600
Multigrade School Improvement	-	1,000	-	.273
P D & S	.100	-	.100	-

7. Objective: Increase Participant Training

To provide training in the United States to leaders and potential leaders at all levels, who otherwise would not have the opportunity to study in the U.S.

Key Assumptions

a) Local organizations which assist the Mission in identifying candidates, and in the pre-selection and selection process will continue to cooperate and donate their time to these activities.

b) The mix between short and long-term training presented in the 1985 Country Training Plan will not vary significantly.

Performance Indicators

Target: Training initiated for 1,800 Costa Ricans by 1990, 40% of whom will be women.

Benchmarks:

- Training initiated for 1,150 Costa Ricans by the end of 1987.
- Training initiated for 1,475 Costa Ricans by the end of 1988.

Policy Dialogue: None

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Central American Peace Scholarships Program	597-0001	\$ 21,600,000
	*	LC\$ 3,200,000

Narrative

The Central American Peace Scholarships program (CAPS) is promoting equity and broad participation in development by providing training in the United States to individuals who would otherwise not have such an opportunity. As of January 31, 337 individuals had begun and/or completed training under the program: 12 undergraduate, 25 graduate, 120 short-term technical/leadership, and 180 high school students. In keeping with the spirit of the NBCCA recommendation on providing more U.S. training, USAID/Costa Rica has made a special effort to either provide training in non-traditional fields and/or design training specially tailored for a given group. Of the 337 already selected for training, 139 or 41.2% are women.

The Mission selection process is an open one. Long-term programs are announced through the mass media and all who meet basic criteria are invited to apply. For high-school and short-term programs, the Mission works through intermediary organizations who help identify and pre-select candidates. To ensure participation of disadvantaged groups, the Mission provides in-country and U.S. English language training, and modest local currency stipends to the families of participants who are major income earners for the household.

Budgetary Impact on Regional Program

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Central American Peace Scholarships	5.4	.8	5.4	.8

8. Objective Category: Promote Integration of Women

To assist women in joining the market economy and to allow them to play an active role in the process of economic development.

Introductory Comments

USAID/CR contracted a team which completed an overview/action plan in February. What follows, therefore, is illustrative of the direction the Mission expects to take in addressing Women in Development concerns and is subject to modification.

Key Assumptions

a) By increasing the access of women to education and training, technological know-how, and credit, women's participation in the Costa Rican economy will increase.

b) There is unmet demand among women to obtain benefits available from USAID projects.

Performance Indicators

Target: Increase the percentage of women benefitting from selected programs funded by AID.

Benchmarks:

- Increased access to housing (based on FY 86 study of demand for housing by and particular needs of women heads of households) by the end of FY 1988.

- 40% participation by women in the CAPS program.
- Selected women-based organizations receiving technical assistance to strengthen their operations by 1988.
- Employment opportunities for women in productive enterprises, particularly in rural areas, increased as a result of AID funded activities.

#### Policy Dialogue

Experience has shown that PVO assistance to women's groups have tended to focus on welfare activities and have not taken advantage of potential contribution to production that women can make in carefully designed projects. The Mission, therefore, will encourage PVOs to provide a production orientation to their assistance when implementing WID activities.

#### Projects/Programs

There are no projects of primary impact in this objective.

#### Narrative

The consultants' overview mentioned above identifies three main areas for concentration on women specific projects: agricultural development and agribusiness, training and institutional development, and housing.

In each of these areas, the Mission has on-going or planned activities where the role of women can be factored into implementation decisions. For example, in the agribusiness strategy, employment impact is an important criterion and the impact on women will be ascertained in the planned feasibility studies. In training, the Mission has already set a target for women participation in the CAPS program and will be looking to increase opportunities for women in the Training for Private Sector Development project. Under the PACT OPG, strengthening PVOs that work with women in production oriented activities will be an area of special focus. In housing sector, USAID will conduct a housing demand/needs study among women heads of household to determine whether there is any possibility for including them among shelter program beneficiaries in FY 1987-1988 programs.

Where project development studies, report and evaluations are carried out, sex disaggregated data will be collected to assist the Mission in assessing the actual or potential role for women in the respective activity.

Budgetary Impact

None for FY 1987 or FY 1988.

9. Objective Category: Strengthen the Private Sector

Strengthen the private sector by increasing its role in the provision of services which have heretofore been the domain of the public sector.

Key Assumption

Increasing the role of the private sector in the provision of services will strengthen the private sector.

Performance Indicators

- a) Target: Increased role for the private sector in housing.

Benchmarks:

- Passage of law creating central mortgage bank.
- Use of private contractors for shelter construction and installation of shelter related services.

- b) Target: Increased role of private sector in transportation infrastructure.

Benchmark:

- Model of using the private sector for road rehabilitation and maintenance will continue to be used.

- c) Target: Increased role of private sector in improving educational opportunities

Benchmarks:

- Private institutions of higher learning, e.g., INCAE and the Autonomous University of Central America, provide education opportunities to qualified students.

- Regional Agricultural School for the Humid Tropics initiates instruction during FY 1988.
- Private enterprises print school books under local currency-financed textbook program.

#### Policy Dialogue

Policy dialogue concerns related to this objective have been identified in the preceding sections on expanding access to improved housing, increasing and improving infrastructure, improving health care and services, and improving education opportunities.

#### Projects/Programs

See Table 2 for a listing of the projects/activities which impact on the strengthening the private sector objective. However, there are no projects under Goal III whose primary purpose is strengthening the private sector.

#### Narrative

Maximizing the involvement of the private sector is central to the USAID strategy in Costa Rica. While this might be most obviously applicable to the goal of laying the basis for long-term growth, it also contributes to the equity goal in several ways. These include increasing employment opportunities both directly and indirectly as production is diversified and commodities are exported to countries outside the CACM; depending on the efficiency of the private sector to expand and maintain basic infrastructure, specifically in shelter and transportation, needed to meet the requirements of a growing population; reducing costs and improving the delivery of health services, including the marketing and sales of contraceptives; and, in education, providing an alternative for quality education in institutions of higher learning and for the preparation and delivery of textbooks to school children. As discussed in earlier sections, the Mission has a number of on-going activities in these areas which relate to achieving this equity objective.

#### Budgetary Impact

No direct budgetary impact.

GOAL IV -- Democratic Institutions and Human Rights

A. Statement of Goal

To support and strengthen Costa Rica's model of democracy.

B. List of Objectives

1. Objective Category: Increase Participant Training

Strengthen democratic ties between Costa Rica and the United States by introducing Costa Rican leaders and potential leaders of all levels to the culture, people and technology of the United States.

Key Assumptions

Democratic ties with the U.S. will be broadened and strengthened by U.S. training of leaders and potential leaders from a wide spectrum of Costa Rican society.

Performance Indicators

Target: Training initiated for 1,800 Costa Ricans by 1990, 40% of whom will be women.

Benchmarks:

- Training initiated for 1,150 Costa Ricans by the end of 1987.
- Training initiated for 1,475 Costa Ricans by the end of 1988.

Policy Dialogue: None

Projects/Programs

<u>Continuing</u>	<u>No.</u>	<u>Total Cost thru FY 88</u>
Central American Peace Scholarships Program 597-0001		\$ 21,600,000 LC\$ 3,200,000

Narrative

One of the main purposes of the CAPS program is to counteract Soviet activity in the field of scholarships and training. USAID does not expect to compete with the Soviets on a one-for-one basis. Rather, we are seeking as our candidates leaders, and potential leaders from throughout the society and from a variety of fields such as municipal government, indigenous populations, student groups, law and

Table 3

PROJECTS/TOTAL COST 1/  
DEMOCRATIC INSTITUTIONS AND HUMAN RIGHTS OBJECTIVES

No.	Project/Activity Title	Total Cost (\$ millions)	Incr Part Trg & Community Orgs)	Other (Promote/Support (Targets of Demo Institutions of Oppor)	Objectives	
					LC	Total Cost = LOP thru FY 1988
Continuing						
0133	Special Development Activities 2/	0.600	1.200	1		
Reg.	Cent Am Peace Scholarships	(21.600)	3.200	1		
Misc	AIFLD OPGs (FY 85-FY 88)	2.700	0.000	1		
Reg.	Regional Admin of Justice	11.600	0.000	X	1	
*	Democracy Book Program	0.000	1.296			X
*	Legislative Info & Follow-up	0.000	.060			X

1/ For projects/activities active in FY 1987.

2/ Beginning in FY 1982.

cooperatives. Another important aspect of countering Soviet influence is reaching the disadvantaged. Thus, our program thrust is toward those who would not otherwise have the opportunity to study in or see the United States. We have also been looking at possible target groups such as the arts and sports where the Soviets have been very interested. We recognize that these are not traditional AID training areas, but a leadership study undertaken for the Mission confirms, that these are important leadership areas.

Budgetary Impact on Regional Programs

	(\$ millions)			
	FY 87		FY 88	
	\$	L/C	\$	L/C
Central American Peace Scholarship	5.4	.8	5.4	.8

2. Objective Category: Other

Promote the strengthening of judicial systems, democratic institutions and community organizations in Costa Rica and the region.

Key Assumptions:

- a) Governments in other countries of the region will have the political will to change their judicial system.
- b) U.S. commitment to improved judicial systems in Latin America remains firm.
- c) Labor unions will continue to function.

Performance Indicators

- a) Target: Fully independent judiciaries, i.e., with functional and financial autonomy from the executive branch and with civil service status for judges, established in two countries additional to Costa Rica by 1990.

Benchmark:

- Technical groundwork completed (i.e., appropriate laws, regulations, and administrative structures designed and awaiting implementation) in Honduras, the Dominican Republic, and Guatemala by 1988.

- b) Target: Approximately 50 new Special Development Activities projects carried out in each of FYs 1986 and 1987.
- c) Target: An increase of 23,000 in the AIFLD-supported union activities membership by mid-FY 1988.

Policy Dialogue

Engender commitment among influential citizens of Latin American nations to improving the judiciary system in their country.

Continuing Projects

	<u>No.</u>	<u>Total Cost thru FY 88</u>
-Regional Administration of Justice	597-0002	\$ 11,600,000
-Special Development Activities	515-0131	\$ 400,000
		LC\$ 800,000
-AIFLD OPGs	Misc.	\$ 2,700,000

Narrative

USAID/Costa Rica's main role in working toward the above-stated objective is in managing the the Regional Administration of Justice (RAJ) project whose ultimate objective is the establishment of independent judiciaries which serve as indicators of a fully functioning democracy. Implemented by the Latin American Institute for the Prevention of Crime and Treatment of the Offender (ILANUD), the RAJ project provides regional training (which includes regional courses and seminars, as well as post-graduate study at the University of Costa Rica) and technical assistance programs aimed at upgrading the professional and administrative quality of justice sector institutions, with primary emphasis on judges, judicial employees and court systems. The project also provides institutional strengthening assistance for ILANUD and for the Inter-American Institute of Human Rights, which is also based in Costa Rica.

Costa Rica, as the only Latin American country which currently has an independent judiciary, serves as a model to other nations and a base for regional activities in support of the project goal. Its Supreme Court provides use of sitting judges as instructors and technical assistance resources for the rest of the region. Costa Rica will also be a minor beneficiary under the project via the provision of basic office equipment to judicial offices in rural areas to assist in the more efficient management of their workload.

The USAID/Costa Rica program is also promoting democracy through assistance to an ongoing AIFLD program whose specific objective is

developing an institutional capacity within the National Confederation of Workers (CNT) to administer and operate an agrarian services department responsible to its federation and farm union constituency. Although the ongoing AIFLD project is scheduled for completion during the Action Plan period, USAID expects to continue supporting AIFLD efforts either through a project extension or the funding of a new project.

USAID is also promoting democracy through continuation during the Action Plan period of the Special Development Activities Fund which supports small community and organization self-help efforts. Very often the supported activity is the construction of a school room or other facility which can be used as community meeting centers.

Budgetary Impact

	FY 87		FY 88	
	\$	L/C	\$	L/C
AIFLD OPG(s)	850,000	-	850,000	-
Special Development Activities	100,000	LC\$200,000	100,000	LC\$200,000

3. Objective Category: Other

Respond to targets of opportunity to strengthen democracy in Costa Rica. Specifically, make available to Costa Ricans the basic historical works of democracy.

Key Assumption

The unavailability and/or high price of basic historical works on democracy precludes their use for teaching or leisure reading.

Performance Indicators

Target: Publish and distribute within Costa Rica 125,000 copies (5,000 each of 125 titles) of the basic historical works on democracy by late CY 1987.

Policy Dialogue: None

Continuing Projects

	<u>No.</u>	<u>Total Cost</u>
Democracy Classics	*	LC\$ 360,000
Civics Textbooks and Teacher Training	*	LC\$ 936,000

\*Local currency-financed activity.

Narrative

Marxist/Leninist works in Spanish are available in the Costa Rican market place at very low prices because they are subsidized by Eastern Bloc countries. Making low-priced copies of the basic works on democracy available to the Costa Rican people will directly counteract the flood of currently available Marxist/Leninist works.

Budgetary Impact

None in FY 1987 or FY 1988.

Table 4A

SUMMARY TABLE  
Dollar Program by Functional Account  
(\$ millions)

No.	Project Title	FY 86	FY 87	FY 88
<b>ARDN</b>				
0000	PD&S (G)	0.450	0.500	0.500
0204	Private Investment Corp. (L)	1.000	---	---
0235	Northern Zone Consol. (G)	---	0.500	0.000
0235	Northern Zone Consol. (L)	---	2.000	9.500
0226	AIFLD OPG	0.750	0.000	0.000
0277	ACDI OPG	0.600	---	---
9999	New OPGs	---	0.850	0.850
Subtotal		2.800	3.850	10.850
(Loan)		1.000	2.000	9.500
(Grant)		1.800	1.850	1.350
<b>Population</b>				
0000	PD&S (G)	0.025	0.050	0.050
Subtotal		0.025	0.050	0.050
<b>Health</b>				
0000	PD&S (G)	0.050	0.050	0.050
0203	Health Services Support (G)	0.050	---	---
Subtotal		0.100	0.050	0.050
<b>Education</b>				
0000	PD&S (G)	0.080	0.100	0.100
0212	Trg. for Priv Sector Devel (G)	0.500	0.500	---
Reg.	CAPS (G)	(5.400)	(5.400)	(5.400)
Subtotal		0.580	0.600	0.100

Table 4B

SUMMARY TABLE  
 Dollar and Local Currency Program  
 Life of Project Levels  
 Thru FY 1988  
 (\$ thousands)

For projects/activities still active in FY 87

No.	Project Activity Title	THRU		FY 87	FY 88	TOTAL
		FY 86	LC			
	GOAL 1 -- Economic Stabilization					
Misc	Economic Stabil. & Recov.	585,735	-	150,000	-	885,735
---	PL 480 Title I	117,500	-	19,500	-	156,500
---	CODESA Divestiture		190,000	-	50,000	240,000
	Subtotal	703,235	190,000	169,500	50,000	1,042,235
				169,500	-	240,000

Note: 1. Projects/activities are listed under one goal only; however, they may impact on more than one goal.  
 2. Excludes PD&S

No.	Project Activity Title	THRU			FY 87 LC	FY 88 LC	TOTAL LC
		FY 86	FY 87	FY 88			
		\$	\$	\$	\$	\$	
---	PIE (& Predecessor) OE*	-	5,750	-	1,600	-	8,750
---	PAAC Operating Expenses	-	432	-	210	-	852
---	Cent Bank Rediscount Facility	-	110,000	-	20,000	-	150,000
0187	Private Sector Exp Cred (COFISA)	10,000	-	-	-	10,000	-
0204	Private Investment Corp (PIC)	21,000	5,100	-	-	21,000	5,100
0233	Ag & Indust Reactivation (AIRR)	5,000	-	6,500	-	2,500	14,000
TCIP	Trade Credit Insurance Prog.	100,000	-	-	-	100,000	-
---	Agric Export Expansion	-	1,800	-	7,525	-	16,845
---	Coffee Technif & Divers	-	8,237	-	5,900	-	20,037
0227	ACDI OPG	800	-	-	-	800	-
0190	Policy Plng & Admin Improve	6,500	345	2,400	-	-	8,900
0212	Trg for Private Sector Devel	4,500	3,465	500	-	-	5,000
Subtotal		147,800	135,129	9,400	35,235	2,500	159,700
					35,030		205,394

\* In process of negotiation.

No.	Project Activity Title	THRU				TOTAL	
		FY 86	FY 87	FY 88			
		\$	LC	\$	LC	\$	LC
GOAL 3 -- Equity & Brd. Participation							
0191	Northern Zone Infrastr Devel	14,700	6,221	-	-	14,700	6,221
0235	Northern Zone Consolidation	-	-	2,500	3,000	9,500	3,000
----	Road Rehabilitation & Maint.	-	9,802	-	10,000	-	29,802
----	Agric School for Humid Tropics	-	76,000	-	16,000	-	92,000
----	Central Mortgage Bank	-	10,000	-	20,000	-	50,000
HG	Housing Investment Guaranty	20,000	-	-	-	20,000	-
	--Loc Currency Shelter Activities	-	14,600	-	-	-	14,600
0232	P.A.C.T. OPG	1,300	-	1,700	-	-	3,000
REG.	Cent Am Peace Scholarships	(10,800)	1,600	(5,400)	800	(5,400)	800
----	Primary Textbook Program	-	2,650	-	-	-	2,650
----	Secondary Textbook Program	-	-	-	2,400	-	4,000
----	Multigrade School Improvement	-	727	-	1,000	-	2,000
0168	Family Planning Self-Reliance	2,500	-	-	-	2,500	-
0203	Health Services Support	10,300	-	-	-	10,300	-
----	Local PVO Program	-	7,000	-	-	-	7,000
Subtotal		48,800	128,600	4,200	53,200	9,500	35,673
						62,500	217,473

No.	Project Activity Title	THRU		FY 87	FY 88	TOTAL
		FY 86	LC			
		\$	LC	\$	LC	\$
GOAL 4 -- Demo Institu & Human Rights						
---	Democracy Book Program	-	1,296	-	-	1,296
0133	Special Devel Activities	400	800	100	200	1,200
OPGs	AIFLD	1,000	-	850	-	2,700
REG.	Regional Admin of Justice	(11,600)	-	-	-	(11,600)
----	Legislative Info & Follow-up	-	60	-	-	60
	Subtotal	1,400	2,156	950	200	3,300
	TOTALS	901,235	445,885	184,050	138,635	1,267,735

182,450 70,903 665,423

## Implementation Schedule

### 1. Priorities

ESF programs are the top priority in the Mission's program because they support the stabilization of the Costa Rican economy, without which long-term development objectives will be impossible to achieve. Further, the local currency made available under the program provides the bulk of the financial resources for Mission development program activities, as well as for operating expenses. Cuts in ESF program levels, therefore, impact on a score of programs.

The availability of local currency to finance activities designed to achieve the objectives of the Mission's program in Costa Rica has the effect of keeping our DA budget at relatively low levels. Nonetheless, carefully selected dollar-financed projects form an integral part of the total Mission program. Within that program, ongoing projects have top priority for the DA funds that are available. Apart from OPGs, the Mission intends to initiate only one new project during the Action Plan period, the Northern Zone Consolidation project scheduled for first obligation in FY 1987. Beginning some activities under this project in FY 1987 is important to avoid losing momentum created by the Northern Zone project. Thus, in a funds reduction situation, the Mission would at least want to cover the services of the U.S. advisor while local currency-financed activities continued.

Mission reasoning is the same for FY 1988--ongoing programs are top priority. However, in that year, even in a reduced-funding situation, the Northern Zone Consolidation project could be initiated.

### 2. Mortgage

As the Mission enters FY 1987, it will have a total mortgage (excluding PD&S) of \$13.9 million, \$9 million of which will result from the initiation of the Agricultural and Industrial Reactivation Project in FY 1986. The balance of the mortgage consists of final increments of three projects including \$0.5 million for the Training for Private Sector Development project, \$2.4 million for the Policy Planning and Administrative Improvement project, and \$1.7 million for the PACT OPG.

Under the proposed budget, a \$2.5 million mortgage under the AIRR project will be carried into FY 1988, as will \$10 million under the Northern Zone Consolidation project, and possibly minor amounts under OPGs. By the end of FY 1988, all but the final \$0.5 million increment for the Northern Zone Consolidation project, and perhaps some minor OPG amounts, will be eliminated. Thus, as the Mission enters FY 1989, its mortgage will be negligible.

3. Pipeline

At the end of FY 1985, the Mission's total obligations were \$102,735,000 with a pipeline of \$71,812,000 (69.9%). In FY 1986, a number of events will take place which are expected to significantly reduce the pipeline.

Under the Northern Zones Project, the road construction contract has been signed, construction has been initiated and FY 1986 expenditures are expected to be close to \$9.0 million. The Private Investment Corporation Project is expected to have expended \$4.0 million by the end of FY 1987. The Private Sector Productivity loan to BANEX has already been fully expended. The Private Sector Export Credit project is expected to be fully committed by the close of CY 1986. The Health Services Support project was amended to reflect a shift in the mix of commodity inputs to be financed which is expected to translate into increased disbursements totalling \$ 3 million in 1986. These events alone will reduce the unliquidated pipeline by almost \$30 million. Disbursements under the remaining projects in the portfolio will yield an additional \$10.0 million in expenditures for this period. Because new DA obligations will be relatively small in FY 1986, the net result is expected to be a decrease in the pipeline to approximately 30% of total obligations at the start of FY 1987.

4. FY 1987 Documentation/Authorization Schedule

In addition to yet to be determined OPGs, the Mission will propose three new dollar financed projects during the Action Plan period: two ESF grants to continue with the macroeconomic balance of payments support which is central to our program, and one DA project (loan/grant) which will be a follow up to the ongoing Northern Zone Infrastructure Development project.

The following documentation schedule is planned:

	<u>PID</u>	<u>PP</u>	<u>PAAD</u>
FY 1987			
- ESR VI			
- Northern Zone Consolidation	1/87	6/87	11/86
FY 1988			
- ESR VII			11/87

5. New Project Descriptions

Project Title : Northern Zone Consolidation

Project Number : 515-0235

Project Funding : FY 1987 FY 1988 FY 1989

-Loan	\$2,000,000	\$9,500,000	\$500,000
-Grant	\$ 500,000	-	-

Appropriation Account: Agriculture, Rural Development and Nutrition

Purpose

To assist the Government of Costa Rica (GOCR) in attaining the socio-economic consolidation of three specific areas in Costa Rica's Northern Zone.

Problems

The Northern Zone of Costa Rica is an area which is not fully socially and economically integrated with the rest of the country. It includes extensive areas of underutilized lands with considerable agricultural potential and whose inhabitants feel isolated from the rest of the country.

In response to this situation, USAID has been implementing, with the Ministry of Planning (MIDEPLAN), the Northern Zone Infrastructure Development project in the cantons of Upala, Guatuso and the district of Santa Cecilia of the canton of La Cruz. The project addresses the most immediate problems of lack of all-weather roads, the lack of modest local community infrastructure, the need for feasibility studies on which to base further productive activities, and the need to increase the population in a manner which would permit greater utilization of land in intensive cropping. By late CY 1987 the road from Santa Cecilia to Upala and Guatuso will be close to completion; preinvestment studies and pilot projects will have identified specific investments to be promoted in the public and private sectors in traditional and non-traditional agribusiness-oriented products; 800 families will be settled on newly acquired properties; and 50 community development associations, representing 75% of the population, will have been activated.

Nonetheless, there remain constraints to consolidating the economic and social development of the area--to increasing per capita income levels through participation in agribusiness ventures, to improving general living conditions, and to expanding the area's contribution to national export revenues. These constraints include lack

of adequate credit to produce, process and market specific non-traditional agribusiness products; an inadequate feeder road system; poor environmental health conditions; the need for more land titling; a lack of agribusiness-oriented farmer organizations; and insufficient and inadequate technical assistance and training.

#### Relationship to AID Policy and Mission Strategy Objectives

The Mission's top development priority in Costa Rica is moving the country away from import substitution to an economy with an expanded production base, strengthened financial markets, expanded productive credit, and increased employment opportunities--all leading to the increased domestic and foreign investment needed to bring about sustained growth. This project conforms directly to that objective by contributing to an expanded production base and to increased employment opportunities. It also responds, as AID policy in Central America prescribes, to the recommendations of the National Bipartisan Commission on Central America in that it is geared to increasing agriculture production, increasing infrastructure, and increasing access to housing.

#### Project Description

The project will fund activities falling into five components: rural infrastructure (which includes feeder road/bridge construction, potable water systems and housing); credit for non-traditional agribusiness export products (International Food and Agricultural Development--IFAD--will provide production credit for traditional crops); land titling; and a special projects fund for training and agricultural enterprise development. The project will be organized along the lines established under the ongoing Northern Zone Infrastructure Development project. MIDEPLAN staff working out of Upala with the assistance of a U.S. project advisor will focus on coordinating project components, supporting the organization of farmer groups, identifying non-traditional agribusiness products with development potential, linking farmers with potential investors and assisting public and private sector organizations/institutions in coordinating their development efforts in the area.

Project implementation will shift from the current approach of a centralized decision-making process from outside the project area to a more decentralized approach, requiring more active participation of public and private sector groups within the zone.

Preliminary Budget

	<u>AID</u>	<u>GOCR</u>
1. Rural Infrastructure	7.8	2.5
2. Credit	3.5	-
3. Small Farmer Organizations and Community Development	-	.8
4. Land Titling	-	.6
5. Project Coordination and Special Projects	-	1.0
6. Technical Assistance	.5	-
7. Contingency	<u>.7</u>	<u>1.1</u>
	12.5	6.0

Project Title : Economic Stabilization and Recovery VII  
Project Number : 515-0236  
Project Funding : FY 1988 \$150,000,000 (G)  
Appropriation Account: Economic Support Fund

Purpose

To assist the Government of Costa Rica (GOCR) to reduce its balance of payments deficit, improve external debt management, stabilize the economy, and reactivate production.

Problems

In response to the economic crisis which hit Costa Rica in the early 1980s, the GOCR has initiated an austerity package intended to stabilize the economy and establish the basis for long-term growth through emphasis on exports. This package is part of the broader stabilization program being implemented by the GOCR with financial assistance from the International Monetary Fund (IMF), the World Bank, public and private creditors, and A.I.D.

Preliminary results have been encouraging: GDP growth has reversed a negative trend with a positive 3.4% growth rate projected for 1986, the exchange rate has been stabilized, the fiscal deficit has dropped from over 14% of GDP in 1982 to less than 2%, and general compliance has been achieved with the targets established in the IMF's Standby Arrangement. Despite this progress, however, per capita GDP has not returned to its 1979 level, and a huge balance of payments gap continues to threaten Costa Rica's efforts to establish a solid foundation for long-term growth.

External financial assistance, at around \$150 million will be required through the end of the decade if Costa Rica is to stay on its current economic path and to assure that the problems being confronted are fully overcome. The proposed project, therefore, will follow the lines of the previous Economic Stabilization and Recovery (ESR) projects and assist the GOCR address the macroeconomic problems which can be expected to persist.

Relationship to AID Policy and Mission Strategy Objectives

The project resources and the policy leverage that they provide will contribute to consolidating stabilization of the economy. Economic stabilization is the Mission's top program priority, since without it, there is no basis for a return to sustained economic growth. Consistent

with the Agency's emphasis on policy dialogue, ESR assistance will be conditioned on policy and regulation reforms which will assist in creating the environment for long-term, equitable growth.

Project Description

The project will follow the design of earlier ESR projects by providing dollars to the GOCR (through the Central Bank) on a cash transfer basis for the private sector to import from the U.S. essential raw materials, intermediate goods, spare parts and other inputs to maintain industrial and agricultural production. Local currency generated by the project will be channeled, within the parameters of the GOCR austerity program, to help meet working capital requirements of private businesses which generate employment, and to finance selected development activities.

Preliminary Budget

A total of \$150 million in grant funds will be provided to the GOCR on a cash transfer basis. All funds will be disbursed in FY 1988.

### Economic Support Fund Plan

The USAID Mission plans to provide Costa Rica with \$150 million of Economic Support Fund (ESF) assistance in each of Fiscal Years 1987 and 1988.

#### 1. Balance of Payments

The Mission's most recent balance-of-payments analysis is included in the document entitled "Economic Trends and Problems" dated February 13, 1986, which is intended as an Annex to the upcoming FY 1986 PAAD. That analysis and the summary analysis presented below for 1987 through 1990 are based on IMF projections included in their Document No. SM/85/223.

Briefly summarizing the situation, balance-of-payments and debt-service projections indicate that Costa Rica will continue to require significant balance-of-payments assistance through the end of the decade. Data provided in Table 5 of this Action Plan show a total financial gap of \$1.269 billion for the years 1987-1990, \$354 million of which would serve to restore official foreign exchange reserve which are presently depleted. USAID assistance, combined with other transfers to the public sector (Central Bank) will help fill that gap.

The severity of the Costa Rica debt-service situation argues for continuing to provide ESF assistance on a grant basis. For the period 1987-1990, the projection of public debt service, as presently scheduled, averages 50.6% of export earnings. The projection suggests that reschedulings of external public sector debt will be required to reduce the debt service burden to a tolerable limit. Increments to debt service, even in the form of long-term loans, will most likely simply increase the size of near-future debt schedulings, thus adding to an already serious problem.

#### 2. Policy Dialogue

ESF agreements have already included covenants which, among others, relate to unification of the exchange rate and maintaining it a realistic levels in relation to other currencies; establishment of positive real interest rates, as well as reduction of interest rate subsidies and special areas of interest allocation. Agreements have also included covenants aimed at reducing GOCR expenditures, with special emphasis on divestiture of parastatal enterprises held by the Costa Rican Development Corporation (CODESA). The GOCR has been in substantive compliance with these convenants.

During the balance of FY 1986 and FY 1987, the Mission's major policy dialogue issue will be continued GOCF commitment to the CODESA divestiture program, including agreement to undertake the necessary actions that will limit the future role of the CODESA holding company and keep it from creating, financing or operating any subsidiary enterprises. At the same time, the Mission will stress continued emphasis on exchange rate and interest rate policy.

TABLE 5

PROJECTED BALANCE OF PAYMENTS AND DEBT SERVICE, 1984-1990  
(Data in millions of U.S. dollars and percent)

	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>
B/P Current Account Balance	-313	-377	-223	-210	-213	-229	-246
Net Private Capital	95	110	70	76	83	132	140
Net Public Sector (memo item)	109	298	149	-237	-62	-85	-64
Disbursements to Public Sector	296	383	346	348	353	305	300
Amortization of Public Sector	-341	-406	-365	-585	-415	-390	-364
Refinancing (Existing Agreements)	154	275	136	--	--	--	--
Other	--	46	32				
Financial Gap (Req. B/P assistance)	--	--	84	450	277	274	268
Over-all Balance (Inc. Net. Int. Res.)	-110	30	80	79	85	92	98
Public Sector Debt Service	426	481	576	931	767	750	732
--Amortization	112	155	232	585	415	390	364
--Interest	314	326	344	346	352	360	368
Debt Service as Ratio of Exports of Goods and Nonfactor Services							
--Before Debt Relief (Percent)	58.7	60.5	55.0	67.2	50.7	44.8	39.5
--After Debt Rescheduling (Percent)	35.2	38.4	45.0	44.6	37.4	32.9	28.7
Current Account Deficit as Percent of Gross Domestic Product	9.1	11.0	10.7	5.8	5.2	5.1	5.1

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Source: IMF document SM/85/223, p. 20.

Note: (1) The latest available data as of February 1986 are for 1984, 1985, and 1986. Data for 1987 through 1990 are per IMF projections prepared in July-August 1985.

(2) Disbursements to the public sector for 1984-1986 include ESF transfers; but those for 1987-1990 do not. The levels for 1987 and 1988 appear high, and USAID/Costa Rica assumes they include substantial projected IBRD disbursements.

P. L. 480 Title I Action Plan - FY 1987 - FY 1988

The following narrative relates the FY 1987 and FY 1988 P.L. 480 Title I Program to the Mission's strategy and program. Information is provided on the country's food situation, its local production, grain import requirements, the ability to import grains at commercial rates, present food policies and reforms to be supported with the new program. Descriptions of the use of proposed commodities, potential self-help measures, tentative local currency uses, status of storage and distribution facilities/systems, and issues concerning disincentives to local production are provided.

1. Relationship to Mission Strategy

During FYs 1985 and 1986, the P.L. 480 Title I Program, in terms of self-help measures and local currency uses, served as one of the Mission's principal vehicles to carry out its basic strategy for Costa Rica of stabilizing the economy, laying the basis for long-term economic growth and spreading the benefits of growth.

In following this strategy, self-help measures and local currency uses were targeted on specific NBCCA recommendations that address major constraints affecting the development of Costa Rica's agricultural and rural sectors. Examples of self-help measures in the FYs 1985 and 1986 P.L. 480 Title I Sales Agreements included: a) removal of price subsidies for basic grains; b) strengthening private sector producer associations; c) improving the GOCR's "campesino" land settlement program; and d) improving agricultural policy planning. P.L. 480 Title I local currency also supports a range of other initiatives including rural infrastructure and housing projects, agricultural research and extension programs for nontraditional export products, and programs to accelerate agricultural development and strengthen the cooperative sector.

The self-help measures and local currency activities described in later sections of this narrative will continue to relate directly to the Mission's program objectives. A narrow range of P.L. 480 Title I local currency activities will be supported consistent with these objectives and will focus on specific NBCCA thrusts having the greatest potential impact in leading Costa Rica to a vigorous and sustained socio-economic growth.

2. The Country's Food Situation

The country's food situation has improved since the P.L. 480 Title I Program was initiated in FY 1982. Revised GOCR pricing policies provide farmers with the needed incentive to increase the production of basic food crops to the point that Title I imports have steadily decreased from a high of \$27.1 million in FY 1983 to \$20.0 million in FY 1986. Currently, Costa Rica is self-sufficient in white corn, used for

human consumption, and has reduced its dependency on yellow corn/sorghum imports used for animal feed from 54,000 mt in CY 1982 to an estimated 10,000 mt in CY 1986. By CY 1988, these imports are expected to drop to zero. It is anticipated that the GOCCR's pricing policies and improved farm practices will continue to increase production of basic foods.

Although improving, Costa Rica's difficult economic situation, particularly foreign exchange shortages and the balance of payments gap, will continue at least through the end of this decade. Consequently, donor assistance will be needed over this period although at progressively declining levels. Similarly, as progress in overcoming the economic crisis continues, Costa Rica will be able to assume more of the costs of importing its basic food requirements (the projected return to self sufficiency in feed grains will eliminate associated costs by 1988). In the interim period, however, access to concessional credit will be a critical component of the GOCCR economic program.

3. Present Food Policies and Reforms to be Supported with a New Program

The FY 1986 P.L. 480 Title I program contains important food pricing policies aimed at eliminating existing subsidies to consumers of basic grains. Eliminating such price subsidies by the end of FY 1986, will result in reducing the GOCCR's public sector deficit by millions of dollars annually. In the future, the Mission is also considering engaging in policy dialogue directed at lowering support to producers of basic grains so that price levels are more in line with international prices. Emphasis will be on increasing domestic production through the adoption of improved technology channeled through public and private sector institutions instead of through producer price subsidies.

Currently, Costa Rican support to producers of basic grains results in prices almost double those in the international markets. Consequently, surplus production, as occurred with rice in 1984, is sold at a substantial loss in foreign markets thereby further increasing the public sector deficit. A radical reduction of price supports is not intended since this would translate into an immediate decrease in domestic food production and an increase in food imports. The basic concept is to find a balance that will, within the medium-term, shift the balance in favor of a response to realistic market situations and opportunity costs.

4. Use of Proposed Commodities

Wheat and yellow corn are the two commodities that will be imported under the P.L. 480 Title I Program in FY 1987. Wheat will be converted into flour to be used in bread, pastry, cookies and pasta. Yellow corn is used for animal feed. In FY 1988 it is projected that only wheat will be imported.

## 5. Additional Self-Help Measures

In addition to the self-help measures related to pricing policies discussed in Section 3, various self-help measures under consideration address important reforms in other areas. For example, legislation has been proposed that would require that at least ten years elapse before actual transfer of land ownership is made to settlers working on properties purchased by the GOCR's Agrarian Development Institute (IDA). Such a law would actually reduce land distribution and tenure security in Costa Rica. Therefore, the Mission expects to pursue a self-help measure the Mission may decide to pursue would be directed at reducing the time frame and bureaucratic steps involved on IDA's part in issuing land titles.

An increase in the availability of credit for investment and operating capital required to support the production, processing and marketing of nontraditional export oriented products is also necessary to diversify the country's economic base. The lack of credit will be addressed by committing the GOCR to make available a certain amount of PL 480 local currency generations as credit for production, processing and marketing of nontraditional agricultural export products.

Making P.L. 480 Title I local currency resources available to continue the integration of the country's Northern Zone with the rest of the country is essential both to expand the country's agricultural base and to protect the social stability of an area directly affected by violence, and political and military events occurring across the border. Supporting actions directed at increasing agricultural production, expanding existing and developing new agribusiness enterprises, and promoting socio-economic integration in this area will contribute to national economic growth and the country's socio-political stability.

## 6. Proposed Local Currency Uses

The Mission will select a narrow range of local currency activities consistent with its strategy goals, and specifically the strengthening of the private sector. In this effort, the P.L. 480 Title I Program will target local currency for: a) expanding and improving rural infrastructure which link produce and processed goods to markets; b) increasing agricultural production through increased credit, extension, training and promoting applied research in traditional and nontraditional export crops; and c) supporting rural housing and other rural infrastructure projects which will contribute to social stability and quicken the economic development pace of Costa Rica's rural areas. Complementary to this thrust is the strengthening of Costa Rica's cooperative sector and support to viable, social infrastructure community development projects to relieve social tensions, unify rural communities and promote the integration of different sections of the rural population.

7. Status of Storage and Distribution Facilities/Systems

Under a self-help measure established in previous P.L. 480 Title I Sales Agreements, the National Production Council (NPC) is increasing its grain and pulse grain storage and handling facilities at its Barranca site by approximately 15,000 mt, at the Port of Caldera by 5,000 mt and at the La Rita site by 10,000 mt. The NPC has been slow in implementing this self-help measure due, in part, to delayed negotiations in obtaining IDB dollar funding for the construction of the Barranca and Caldera installations. Despite delays, preliminary soils, engineering and design studies have been completed for the Barranca and Caldera sites and earth movement is in process at the La Rita site. Furthermore, the bidding process for the construction of the La Rita grain storage and handling facilities is expected to be completed in February, and construction of grain storage and handling facilities initiated during the second semester of 1986.

Completion of the La Rita installations will provide grain and pulse farmers in the Atlantic Zone with an important marketing outlet and the construction of the Caldera and Barranca installations will speed up and facilitate grain handling at the ports and increase the GOCR's capacity to maintain security grain stocks as well as to attend to farmer storage needs in the Pacific Zone.

It is worth noting that during the past four years, over 500,000 mt of P.L. 480 Title I commodities have been imported by Costa Rica, thus demonstrating that the country's local port and grain storage and handling facilities are adequate to store and handle the Title I commodities and prevent their spoilage and waste at the time of importation.

8. Issues Concerning Disincentives to Local Production

The distribution of P.L. 480 Title I commodities has not, nor will it result in disincentives to, or the interference with domestic production and marketing of the proposed commodities. Costa Rica farm support prices for feed grains, an extensive crop insurance program, and credit have been the major means for increasing the production of several grains and pulses. The net effect of the GOCR's basic grain program on the P.L. 480 Title I Program and the increased use of raw sugar in livestock rations as a substitute for feed grains, has resulted in declining feed grain imports from a high of 54,000 mt in FY 1982 to an estimated 10,000 mt in FY 1986. Furthermore, zero feed grain imports are projected by FY 1988.

Costa Rica's annual wheat consumption is totally imported. Wheat consumption is expected to remain relatively stable because the usage of wheat bread substitutes have failed to become popular. White

corn, which is used in making tortillas, is the closest substitute for wheat bread. It could easily be assumed that white corn production in Costa Rica would decline as the consumption of wheat increased. Nevertheless, the opposite has occurred, and as a result of high support prices, Costa Rica is normally self-sufficient in white corn.

9. Projected P.L. 480 Title I Program for FY 1987 and FY 1988

The following Table tentatively summarizes the P.L. 480 Title I commodity requirements for Costa Rica during FY 1987 and 1988.

<u>Commodity</u>	<u>FY 1987</u>		<u>FY 1988</u>	
	<u>(mt)</u>	<u>\$ millions</u>	<u>(mt)</u>	<u>\$ millions</u>
1. Wheat	120,000	18.8	125,000	19.5
2. Feed grains	5,000	0.7	-	-

Projected Title I commodity requirements for Costa Rica show a decline from \$27.1 million in FY 1982 to an estimated \$19.5 million by FY 1988. Wheat imports may increase from 120,000 mt in FY 1987 to 125,000 mt in FY 1988, due to normal consumption growth trends.

### Local Currency Program

USAID/Costa Rica has a large and active portfolio of local currency financed activities. In exchange for dollar cash transfers under the Economic Stabilization Recovery (ESR) program, the GOCR deposits the local currency equivalent of each disbursement in the AID Special Account in the Central Bank (BCCR). In addition, local currency generated from the sale of P.L. 480 Title I food commodities is deposited into a separate account in the BCCR. Since becoming available in FY 1982, these resources have been the principal source of funds to implement the Mission's program and, specifically, to carry out our strategy designed in response to the recommendations of the NBCCA.

Since FY 1982, the local currency equivalent of \$465.7 million from the ESR program and \$92.5 million from the Title I program have been programmed for Mission activities. As seen in Table 6, the majority of the local currency (both ESF and PL 480) has been directed toward the laying the basis for growth and equity goals of the Mission's strategy, although funds have also been directed toward the democracy goal through activities such as counterpart to the CAPS project and assisting to broaden participation in the legislative process of Costa Rica.

During FY 1985 and FY 1986, the majority of available local currency resources have been devoted to the divestiture of the CODESA subsidiaries to achieve important structural reforms in the economy. Strengthening the private sector and increasing employment have also received considerable emphasis, with resources added to the BCCR local currency credit line, supporting investment promotion activities, expanding basic infrastructure (primarily roads and housing), supporting a market-led agribusiness strategy, and fighting coffee rust in order to maintain production and export earning levels.

Significant levels of resources were also programmed for education and training activities, including support for the new regional Agricultural School. In the case of PL 480, funds were used to provide counterpart for IDB and USAID rural development projects, as well as other projects and studies being implemented by the GOCR.

In FY 1987 and FY 1988, local currency will continue to be the Mission's principal resource available to implement its strategy. By FY 1987, we expect that the programming emphasis for these funds will shift more toward the equity goal as the stabilization efforts made by the GOCR are consolidated and the basis for sustained growth well established. The principal areas where the Mission plans to direct resources include:

- housing, where financial assistance will be continued to help capitalize the central mortgage bank;
- infrastructure, primarily road rehabilitation and maintenance;

- education, including counterpart to the Agricultural School and funds to improve delivery of services at the primary and secondary schools;

- credit to the productive private sector;

- investment promotion related to attracting foreign investment as well as expanding domestic investment;

- technical assistance and credit in support of the new agribusiness strategy developed by the Mission.

For its local currency program, the Mission has an established process for identifying, developing and implementing all activities. Since FY 1985, the Mission has narrowed the range of activities financed and has required that clear linkages to the Mission strategy be established. As part of this effort, the Mission has also reduced the number of local currency activities to a level where staff resources are adequate to assure an appropriate degree of implementation monitoring. In the future, we will continue to limit the number of new local currency financed initiatives because we have determined that a few carefully selected and developed activities have a greater impact and are more effective in contributing to the achievement of the Mission's strategy.

A final concern which is critical to the Mission's local currency program is the amount of local currency that is monetized each year. Two factors are considered: the levels of local currency that the economy can absorb without creating inflationary pressures, and the impact on the non-financial public sector deficit which is a key element in maintaining a stabilized economy. Within this context, the Mission has worked closely with the IMF to determine appropriate levels of monetization. In 1985, the amount established was the equivalent of \$60 million for project activities plus \$20 million for the local currency credit line. We expect that similar levels will be agreed upon during the Action Plan period.

Table 6

LOCAL CURRENCY ACTIVITIES BY NBCCA RECOMMENDATION

(\$ 000)

	Stabilization	Laying the Basis for Long-Term Growth	Equity & Broad Participation in Development	Democratic Institutions and Human Rights
1. ESF Resources *				
- CODESA Divestiture	140,000			
- BCCR Price Checking Unit	533			
- BCCR Computerized Record Keeping	2,234	90,000		
- BCCR Credit Line		5,100		
- Support to the Private Investment Corporation		10,574		
- Support to COFISA		5,000		
- Road Maintenance and Repair		19		
- Support to PPAI Project		1,818		
- Special Studies for Ministry of Planning		15		
- Support to the Ministry of External Tariffs		7,595		
- Export Promotion Activities		8,662		
- Coffee Technification Project			60,000	
- Agricultural School			2,300	
- Training for the Private Sector Dev. Project				4,496
- Endowments & Library Support to Private Institutes of Higher Learning				4,963
- Support for Business & Public Administration Programs				798
- Support to CAPS Program				1,921
- School Book Printing and Distribution				1,072
- Health & Nutrition Programs				328
- Population & Family Planning				8,957
- Housing and Infrastructure				23
- Promote Small Business Programs				890
- Promote Community Organizations and Democratic Institutions				60
- Promote Participation in Legislative Process				
Total ESF Resources	142,767	128,783	84,858	950

\* List includes ongoing activities as of 1/31/86

Laying the Basis for Long-Term Growth      Equity & Broad Participation in Development      Democratic Institutions and Human Rights

Stabilization

2. PL 480 Resources

- Debt Renegotiation
- Technology Transfer Research
- Export Promotion
- Irrigation Project
- Ag. Surveys & Studies
- Institutional Support
- Natural Resources Conservation
- Road Infrastructure
- Ag. Credit
- Grain Storage Facilities
- Land Settlement and Distribution
- Health & Nutrition Programs
- Agricultural Education
- Housing Programs
- Private Sector Support
- Agricultural Services
- Support to Coops
- Democratic Institutions

80

1,610  
249  
6,565  
1,486  
2,108  
3,253  
22,759

2,761  
5,073  
12,679  
2,850  
210  
8,424  
2,718  
1,070

4,855  
30

Total PL 480 Resources

80      38,030      35,785      4,885

Evaluation Plan Narrative

FY 1987 - FY 1988

The Mission's strategy for FY87 and FY88 continues to focus on assisting the GOCR to maintain its progress towards overcoming the economic crisis while also working on structural reforms which lay the basis for long-term growth. Project activities center around the expansion of non-traditional exports as well as the maintenance of a high level of traditional exports, private sector development, and various initiatives in the areas of housing, education, and health which aim to spread the benefits of the modest economic growth the country is experiencing.

The evaluations to be carried out during this Action Plan period reflect these priorities and will be used by the Mission to measure the general progress towards the broad objectives established by the NBCCA and to refine its own objectives and strategies. Mission evaluation policy does not require that each project have formal mid-term and final evaluations, but rather evaluations are only undertaken when project managers in coordination with Mission management decide that they would yield insight into improved implementation or have implications for future funding in that sector.

Mention must be made of the major evaluations which will take place in FY 1986 which preclude the need to cover the same areas in the two years which follow. These include the final evaluations of the Private Sector Productivity Project (515-0176) and of the Private Sector Export Credit Program (515-0187), as well as the mid-term evaluation of the Private Investment Corporation (515-0204). While each will concentrate on the specific project outputs and achievement of the projects' objectives, the three evaluations will be used together in order to evaluate the general impact of the Mission activities in the financial sector.

The Mission has carefully considered the possibility of undertaking cross-sectoral evaluations, but concluded that given the current portfolio and the number of major evaluations to be completed in FY 1986, there was no need for such evaluations during FY 1987-FY 1988. By broadening the scope of all evaluations to focus more on the overall development impact and the progress towards general program initiatives, the Mission will be able to monitor progress more effectively towards fulfilling the recommendations of the NBCCA without unnecessarily increasing the cost of the evaluation activities. In addition, by the end of FY 1986 each technical division will have completed individual sector overviews which will serve as valuable input for Mission programming and planning.

As shown in the attached table, ten evaluations will be carried out in FY 1987 and FY 1988. Of these, five are mid-term and five are final evaluations.

For the first time since the inception of its large local currency program, the Mission is planning to evaluate three local currency projects. The first is the Investment and Export Program of CINDE, which has been the core of the Mission's efforts to stimulate the growth of exports and foreign investments in Costa Rica. The evaluation will focus primarily on the area of investment promotion and will provide the Mission with the information and analysis necessary to determine future funding levels and priority activities.

The second local currency project is the Oil Palm Project, which involves assistance by AID to a worker-owned oil palm cooperative. The evaluation will deal with the technical aspects of the project but will also examine the unique financing mechanisms through which AID has provided endowment for various local institutions while at the same time permitting use of the endowment funds for implementation of a separate project.

The third local currency evaluation will be done on the CODESA divestiture program which is expected to be completed by the end of FY 1987. Given the great importance of the project to the Mission and to the Bureau, the evaluation will look both at the implementation of the project and at the viability of the process as a model for other countries.

The evaluation of the Northern Zone Infrastructure Project covers various sectors. The project involves several components: road construction, community development, area development studies, and land purchase and titling. The project is innovative due to its multi-faceted approach to the development of a specific geographical area, and the results of the evaluation will assist the Mission in determining whether additional funds should be allocated to this kind of project.

TABLE 7 - LIST OF PLANNED EVALUATIONS  
 FY 87 - FY 88  
 USAID/Costa Rica

Project No. & Title	Last Eval.	Planned Eval.	Reasons/Issues	Funding Source	(\$000)	U.S. Person Days	Coll. Ass.
515-0186 CINDE - Investment and Export Program	N/A	1st q. FY 87	<p>PAOD: N/A</p> <p>This program was initiated in 1983 in order to promote foreign investment in Costa Rica and to stimulate the expansion of non-traditional exports. The evaluation will concentrate primarily on the investment promotion program and will determine the effectiveness of the various activities carried out both in Costa Rica and in the U.S.</p>	FD&S	\$30,000	40	N/A
OPG 515-0226 Agricultural Services and Union Development	N/A	2nd q. FY 87	<p>PAOD: June 1988</p> <p>The purpose of this grant is to develop the institutional capacity and economic self-sufficiency of the National Confederation of Workers (CNT) and its Agrarian Department to administrate and operate an agricultural services delivery system for its farm union constituency. The evaluation will determine the adequacy of progress made toward this goal and will review the planned expansion of the agricultural services delivery system which provides technical assistance and training, credit, agricultural inputs, and production marketing services to CNT farm union members. The level of union affiliation will also be examined to determine the increase in union members due to project-funded activities.</p>	Project- Funded	\$25,000	35	N/A
515-0212 Training for Private Sector Development	9/85	3rd q. FY 87	<p>PAOD: September, 1989</p> <p>The purpose of the project is to strengthen the human resources which are needed for Costa Rican private sector development through a program of selected training activities. Two evaluations have already been carried out with a focus on the institutional capacity of the local implementing agency to run the project. This evaluation will be the first to examine the actual progress which has been made toward project goals and objectives and will examine primarily the in-country training since U.S. training will not begin until the 4th quarter of FY 86. It will review and assess: (1) the appropriateness of course design and implementation; (2) the ability of the trainees to apply their acquired skill within their respective organizations; and (3) the changes in the levels of productivity and/or exports which have occurred as the result of project-funded training.</p>	Project- Funded	\$35,000	50	N/A

Project No. & Title	Last Eval.	Planned Eval.	Reasons/Issues	Funding Source	(\$000)	U.S. Person Days	Coll. Ass.
515-HC-006 Urban Employment and Improvement Project	1st q. FY 84	3rd q. FY 87	LOP 3rd q. FY 87 The purpose of the project is to produce 4,800 lower cost housing solutions affordable to low-income persons not currently being served by the Costa Rican housing delivery system (INMU) This final evaluation will measure the degree to which the program has been adopted by INMU and the degree of replicability of this to address future housing needs.	FD&S	\$35,000	40	N/A
515-HC-007 Private Sector Low Cost Shelter Project	2nd q. FY 86	1st q. FY 88	LOP 4th q. FY 87 The purpose of this project is to encourage the private sector finance system to finance 13,500 lower cost shelter solutions over a 4-year period. This is a final evaluation which will assess the degree to which the savings and loan system has recovered from the 1982-83 recession and the institutional capacity that has been achieved to address Costa Rica's long-term housing needs.	FD&S	\$30,000	40	N/A
515-0191 Northern Zone Infrastructure Development	N/A	1st q. FY 88	PACD: April 1987 The purpose of the project is to provide a basis for the efficient and equitable socio-economic development of the area by increased access to market/services, agricultural assets and by expanding community level infrastructure and the knowledge base required to plan and initiate productive investment. The evaluation will be directed at analysis of the results of the special studies and community development components with a view towards the design and prioritization of future investment in the area.	Project-Funded	\$35,000	50	N/A
515-0192 Coffee Technology and Diversification	N/A	1st q. FY 88	PACD: March 1990 The purpose of this project is to technify and diversify coffee plantations through the provision of technical assistance and credit to farmers in order to combat coffee rust in Costa Rica. The evaluation will focus on the impact of the TA and credit on the coffee rust disease in various size plantations and on the level of diversification activities taking place as the result of the project.	FD&S	\$25,000	35	N/A

Project No. & Title	Last Eval.	Planned Eval.	Reasons/Issues	Funding Source	(\$000)	U.S. Person Days	Coll. Ass.
515-0204 Private Investment Corporation	N/A	2nd q. FY 88	<p>PACD: August 1988</p> <p>The purpose of this project is to establish a private investment corporation to provide investment packaging services, medium and long term credit, and equity financing to investors for export-oriented investments. The following aspects will be assessed: (1) impact of sub-loans and investments on the borrowers' business in terms of increased income and entry into new markets; (2) the macro-economic effect of the PIC's operations on foreign exchange earnings and employment generation; (3) the effectiveness of the PIC's financial operations in relation to its client requirements; and (4) the financial viability of the PIC and the PIC's financial performance as compared against the projections presented in the Project Paper.</p>	Project-Funded	\$25,000	35	N/A
MOU No. 1 under 515-0194A CODESA Divestiture Program	N/A	2nd q. FY 88	<p>PACD: -</p> <p>The purpose of this project is to assist the OOCR in implementing its efforts to divest parastatal enterprises held by the Costa Rican Development Corporation (CODESA) by targetting local currency generated by ESF funds to support the process. The evaluation will review: (1) the policy dialogue strategy implicit in this initiative; (2) the actual implementation of the divestiture; and (3) the economic and political impact of the divestiture.</p>	FD&S	\$50,000	-	N/A
MOU No. 17 under 515-0186 Oil Palm Project	N/A	3rd q. FY 88	<p>PACD: FY2004</p> <p>The purpose of this project is to develop a viable producer's cooperative to own and profitably manage approximately 1,700 hectares of an oil palm plantation. The evaluation will focus on: (1) the impact of the technical assistance provided by USAID; (2) the organization and management of the cooperative; (3) the improvement in the living conditions of the cooperative members; and (4) the extent to which the cooperative meets the needs and desires of its members.</p>	FD&S	\$25,000	35	N/A

GRAY AMENDMENT

In FY 1985, USAID/Costa Rica entered into Development-Assistance-funded contracts totalling \$1,435,769 and into two cooperative agreements totalling \$4.685 million, for a combined total of \$6,120,769.

Contracts to minorities and to 8A firms for the same period totalled \$182,375, or 14.5% of all FY 1985 Development Assistance-funded contracts and 3.1% of the combined total contracts and cooperative agreements.

The cooperative agreements were signed with two Costa Rican organizations, the Costa Rican Demographic Association and the Coalition for Development Initiatives. Part of the objective of both projects is the strengthening of these local institutions in providing family planning and training services funded under the agreements.

As was the case in FY 1985, it is likely that during the Action Plan period the sources of greatest potential for meeting Gray Amendment targets will be under the Policy Planning and Administrative Improvement project and Program Development and Support programs. These projects have been combined under the management of the Program Office which will work with technical divisions to encourage use of minority and women-owned firms. In addition, the Mission Training Unit has, and will continue, to work with LAC/DR to identify potential areas for Gray Amendment compliance under the Central American Peace Scholarships program.

TABLE VIII

GRAY AFFIRMMENT TABLE  
Contracts/Cooperative Agreements  
FY 1985

MONTH	NAME (CONTRACT/PO/COOP. AGREEMENT)	AMOUNT OF CONTRACT/AGREEMENT		KIND/MINORITY	FUNDS FROM PROJECT
		MINORITY	NON-MINORITY		
FY 85					
October 84	Stacey, Kenneth (C-326R-02) Development Sciences (C-330R-02)	24,954	2,000	8(A)	515-0190 515-0175
November 84	Energy Dev. Initiative (C-5055) Arthur D. Little (C-505R) Mark Millenax (C-445R) Russell Reynolds & Assoc. (C-4221-01)		7,480 42,209 49,600 5,600		515-0204 515-0000.04 515-0203 515-0204
December 84	Weston International (C-5114)		1,457		515-0175
January 85	William Binford (C-5142) Betsy Murray (C-5133) Experience Inc. (C-5181) Development Associates (RDC 4053)	24,520	175,200 35,120	woman 8(A)	515-0212 515-0190 515-0000.01 515-0000.03
March 85	Development Science Inc. (C-5212) Frank Heilenann (C-5235)	44,360	60,300	8(A)	515-0190 515-0000.01
May 85	David Fledderjohn (PO-5320) NRCA (PO-5378) CTNDF (Coop. Agreem.) C.P. Demographic Assoc. (Coop. Ag.)		5,700 6,000 3,650,000 1,035,000		515-0000.01 515-0000.01 515-0212 515-0168
June 85	Mgmt. Science for Health (RDC 4060) Development Associates (RDC 4053) CARANA (C. Torres) (C-4290-03)	29,275 47,349	42,000	8(A) hispanic	515-0203 515-0000.03 515-0190
July 85	Price Waterhouse (RDC 3171) LaParca Flavio (C-5454) Deloitte Haskins & Sellis (C-4319-02)		34,173 75,127 31,826		515-0000.04 515-0000.04 515-0190
August 85	Energy Development Int. (C-5535) Reynolds, Smith & Hills (C-5559) Cooperative Housing Found. (C-5587) General Electric (PO 5553)		25,000 67,748 13,100 25,680		515-0000.01 515-0000.01 515-0000.04 515-0000.04

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September 85	795	515-0000.04
General Electric (PO 5553-01)	15,000	515-0000.04
The Interamericas Group (PC 5531)	34,173	515-0000.04
Price Waterhouse (PDC 3171)	2,000	515-0000.04
Merieux Laboratories (PC 5585)	37,960	515-0000.04
Booz-Allen & Hamilton (CTR-3506)		
ACDI (C-5609)	85,515	597-0001
Agribusiness Consultants (C-5634)	110,428	515-0000.04
International Resources Group (C-5067)	200,000	515-0000.04
Social Development Center (C-5647)	13,260	515-0000.02
Mgmt. Science for Health (PDC 3083)	16,010	515-0000.04
Mgmt. Science for Health (PDC 4060)	23,933	515-0000.04
Deloitte Haskins & Sells (C-4319-03)	<u>9,000</u>	515-0190
TOTAL CONTRACTS AND PURCHASE ORDERS	<u>1,253,394</u>	
TOTAL COOPERATIVE AGREEMENTS	<u>4,685,000</u>	
GRAND TOTAL DIRECT CONTRACTS AND COOPERATIVE AGREEMENTS	<u>5,938,394</u>	