PD-ABD-398

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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

COSTA RICA

PROJECT PAPER

TRADE AND INVESTMENT PROGRAM
(ESF)

AID/LAC/P-652

PROJECT NUMBER: 515-0250
GRANT NUMBER : 515-K-612

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PD-ABD-398

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)

1. PAAD Number: 515-K-612	515-0250
2. Country: COSTA RICA	
3. Category: CASH TRANSFER	
4. Date: JUN - 7 '91	
5. To: AA/LAC, James Michel	6. OYB Change Number: N/A
7. From: LAC/DR, Jeffrey Evans (Acting)	8. OYB Increase: NONE. To be taken from: ECONOMIC SUPPORT FUNDS (ESF)
9. Approval Requested for Commitment of $ 24,000,000	10. Appropriation Budget Plan Code: LES1-91-35515-KG31 (170-65-515-00-50-11)
11. Type Funding: ☐ Loan ☒ Grant; 12. Local Currency Arrangement: ☐ Informal ☒ Formal ☐ None	13. Estimated Delivery Period: FY 1991; 14. Transaction Eligibility D

15. Commodities Financed

16. Permitted Source	17. Estimated Source
U.S. only	U.S.
Limited F.W.	Industrialized Countries
Free World	Local
Cash $24,000,000	Other

18. Summary Description

The purposes of this $24 million program are to accelerate the process of trade liberalization and to consolidate some of the important gains achieved in the area of public sector efficiency. The $24 million grant will be disbursed in one tranche into a separate, non-commingled interest-bearing account. Dollar disbursement will be based on the GOCR meeting a series of conditions precedent designed to support four goals of the program in accordance with Section VI A, Exhibit 1: 1) macroeconomic stability; 2) a deepening of the liberalization of foreign trade; 3) increased foreign and domestic investment; and 4) increased public sector efficiency.

Dollars will be used to reimburse the Central Bank for eligible private sector imports from the United States. Local currencies generated from the program will used to reduce the deficit of the Central Bank, thus strenthening its financial position.

19. Clearances	Date
LAC/DR/CEN:MSilverman	
LAC/DPP:BSchouten	6/5/91
GC/LAC:TGeiger	6/5/91
PPC/PB:TBarker	6/5/91
ARA/ECP:CBryant	6/5/91
M/PFM/A:RBonnaffon	6/7/91
A/DAA/LAC:PBloom	

20. Action: ☒ APPROVED ☐ DISAPPROVED

Authorized Signature: James H Michel — Date: 6/7/91

Title: ASSISTANT ADMINSTRATOR, LAC

AID 1120-1 (5-82) CLASSIFICATION:

Approval of Methods of Financing

This PAAD complies with current Agency guidance on methods of financing and has provided for adequate audit coverage in accordance with the Payments Verification Policy Implementation Guidance.

E. Cecile Adams, Controller, LAC

'b'

PROGRAM ASSISTANCE

APPROVAL DOCUMENT (PAAD)

TRADE AND INVESTMENT PROGRAM

USAID/COSTA RICA

FY 1991

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I. Summary and Recommendations

A. Summary

In response to a severe economic crisis in 1981 and 1982, Costa Rica began to implement a comprehensive financial stabilization and structural adjustment program. The financial stabilization program was highly successful, as it combined fiscal austerity, a restrictive monetary policy, a sharp devaluation of the exchange rate and the adoption of a system of periodic adjustments in the exchange rate (a crawling peg), and the establishment of a system of market-determined interest rates. Foreign assistance, mostly from the United States, contributed in a major way to the success of the stabilization effort.

The structural adjustment program included the following measures: the maximum tariff rate was lowered to 40%; private banks were allowed to participate in externally funded lines of credit from the Central Bank and to issue certificates of deposit with a maturity of 90 days or more; several state-owned enterprises were privatized; and a comprehensive tax law that reduced high marginal income rates was enacted.

In May 1990 Costa Rica concluded a debt restructuring agreement within the framework established by the Brady Plan. Costa Rica purchased almost $1.0 billion of its commercial debt at a price of 16% of the par value of the debt, and the remaining debt carries a favorable interest rate (6.25%). Although annual debt service payments have not decreased from the levels that were being paid before the debt restructuring (Costa Rica was making interest payments of about 25% of interest due, and it was not making any principal payments), the debt restructuring agreement has made it "legal" to pay the same amount that Costa Rica was paying before the agreement.

The economic program was successful in reducing inflation, restoring economic growth, promoting non-traditional exports, and reducing unemployment sharply. In 1989 inflation was 10%, the GDP grew by 5.5%, non-traditional exports increased by 21%, and the unemployment rate was only 3.8%. This improved economic performance in 1989 was accompanied, however, by a serious deterioration of public sector finances. The deficit of the non-financial public sector reached 2.3% of GDP, compared to the IMF target of a surplus of 0.2%. There was no reversal of the weak fiscal situation until June 1990, when the Calderon Administration began to implement a very strong fiscal adjustment program. This resulted in a lowering of the total public sector deficit from over 7% of the GDP in the first six months of the year to only 3.5% in the last six months.

The current account of the balance of payments deteriorated markedly in late 1989 and early 1990, and significant reserves were lost, particularly in the first five months of 1990. The loss of reserves was exacerbated by the use of Central Bank reserves to finance a major proportion of the comercial debt buy-back.

After arduous negotiations, the IMF Board approved a Stand-by Arrangement in April 1991. The centerpiece of the program is a very strong fiscal adjustment that would result in a surplus of the non-financial public sector of 1.2% of the GDP in 1991. This adjustment is important not only quantitatively but also qualitatively, as the GOCR is reducing the public sector labor force (by 9,000 employees), has introduced legislation to curtail public sector pensions, and has increased the retirement age of the social security system by five years. a/ These measures represent a significant departure from past fiscal adjustment programs, where the emphasis was on revenue increases and reductions in public investment.

The 1991 ESF program (Trade and Investment Program) has been designed in close cooperation with the IMF, the World Bank and the Inter-American Development Bank. The purpose is to accelerate the process of trade liberalization and to consolidate some of the important gains achieved in the area of public sector efficiency. The program gives primary emphasis to measures designed to achieve macroeconomic stability through adherence to the 1991 economic program and, in a new area of action, through measures designed to increase the independence and financial standing of the Central Bank.

The Trade and Investment Program is an intrinsic component of the trade liberalization and investment promotion program of the Government of Costa Rica. Measures taken already include accession to GATT, initiation of free trade discussions with the U.S., Mexico, Venezuela and Colombia, signature of a tax exchange information agreement with the U.S., and support of investment promotion activities. The Inter-American Development Bank (IDB) is initiating appraisal of an investment sector loan, and this will make Costa Rica elegible for the debt reduction aspects of the Enterprise for the Americas Initiative (EAI). (Costa Rica already restructured its debt with the commercial banks under the Brady Plan, and it has a stand-by from the IMF and a SAL from the World Bank.)

In a departure from past practice, the Trade and Investment Program shifts from the use of covenants to CPs and has been designed to accelerate a process of trade liberalization that will receive additional support, mostly from the World Bank and AID.

As this PAAD was being completed, an earthquake with an intensity of 7.4 on the Richter scale hit the Atlantic zone of Costa Rica (April 22, 1991). About 60 persons were killed, and total physical damages have been estimated at US$70 million. The earthquake severely disrupted exports of non-traditional commodities and of bananas. Total export losses in the week after the earthquake have been estimated at US$5 million, and additional losses will be incurred until the serious damage inflicted on the region's infrastructure (roads, bridges, ports) can be repaired.

a/ The fiscal program calls for a reduction of public sector wages equivalent to 7,200 full-time jobs for an entire year. Given the present calendar of workforce reduction, this would require the elimination of 9,000 jobs.

Early in the earthquake response effort, the Mission, working closely with the GOCR, requested a team of U.S. Army Corps of Engineers (USACE) specialists to assess infrastructure damage and to prepare a plan to deal with it. It quickly became clear that full reconstruction of the existing road and bridge network connecting the area south and west of Limon City with the rest of the country would be a long-term project. The USACE team then focussed on design and implementation plans for a temporary solution to reconnect the area while the longer-term reconstruction planning was being worked out. USACE presented the Mission with a US$5 million proposal for a network of road upgrades and bridge repairs that would permit an existing route to serve as a substitute until the main lines could be reconstructed. This would meet the minimal human and commercial road and railroad traffic needs of the area. With this plan, and with funding arrangements for the US$5 million completed quickly with the help of OFDA and the LAC Bureau, the USACE Engineering team began their work on May 6. Major construction work is expected to be completed within 60 to 90 days.

Even if reconstruction activities are financed externally, the IMF program limit on Central Government expenditure would have to be modified to permit a higher level of investment on infrastructure in the Atlantic region without reducing tightly-programmed expenditures for other investment purposes. The GOCR should consider taking measures, including increases in the price of oil derivatives, increases in the tolls on the San Jose/Limon road and expenditure reductions, to "co-finance" with foreign donors the reconstruction.

B. <u>Recommendations</u>

1. That this PAAD be approved, authorizing the US$24 million Trade and Investment Program, and that obligation of a grant for the entire US$24 million in Economic Support Fund resources for Costa Rica be authorized as a cash transfer.

2. That the disbursement be made in a single tranche after the Conditions Precedent are met.

II. Background

A. General Background

With its tradition of democracy and social justice, Costa Rica shares and supports the U.S. goal of promoting democracy, development and disarmament in Central America, and continues to play an active and positive role in regional peace efforts. In April, for example, Costa Rica hosted the founding meeting of the Partnership for Democracy and Development (PDD), wherein 29 countries agreed to create a framework of regional cooperation. In these vitally important areas, Costa Rica provides a model for other countries in the region.

Since taking office in May 1990, the Calderon Administration has embarked on an increasingly serious course of well-directed, but politically difficult fiscal and public sector reform measures aimed at positioning Costa Rica in the front ranks of Latin American nations prepared to take advantage of the cooperation and assistance provided by the PDD and the Enterprise for the Americas Initiative (EAI). Elected on a populist platform, the Calderon Administration's political leadership entered office with a less-than-complete understanding of the fast deteriorating fiscal conditions in the country and the compelling need to undertake fundamental changes in the philosophy and structure of public sector expenditures. Initially this occasioned considerable debate in the Calderon Cabinet and some confusion as to policy direction.

However, after almost a year in office, the government's direction is now clearer. President Calderon is fully supportive of his economic team in their efforts to restore financial stability. Action continues to intensify and expand in the critical area of public sector reform, including significant reductions in public sector employment levels, pension reform and privatization of state enterprises. These and other reform programs of the GOCR have generated a growing level of bipartisan consensus and coordination of action, even in the face of traditional opposition party politics.

Furthermore, along with the immediate-term macroeconomic solutions, the Calderon team has kept its eye on the longer-term challenges and opportunities of expanding export-led growth. It has moved with relative speed to position Costa Rica to participate more fully in the world economy. Costa Rica's ready acceptance and interest in the EAI led it to quickly negotiate and sign an EAI Framework Agreement in November 1990 and to press for the initation of BIT negotiations. Similarly, Costa Rica has broken ground with its trade talks with Central America and Mexico, pushed by the goal of seeing intraregional free trade established by 1996.

The current Administration faces an opposition party that, though publically very hostile, is divided into many camps, some of whom support the present efforts. Indeed, to its credit, many of the actions advanced by the present administration build and expand upon the work of the Arias Administration, such as the ratification of the Tax Information Exchange Agreement (which had been in process for at least five years) and the move to resolve the seven remaining expropriation cases through binding arbitration. Another longstanding effort, the privatization of the CODESA enterprises, may be re-energized soon via one of several approaches being explored, including the closure of the mother organization.

Another challenge to the Administration's reform efforts comes from important elements of the country's private industrial sector, which are waging a strong and well-financed campaign to oppose or at least delay further liberalization of the economy. The issue of tariff reduction is particularly targeted.

The GOCR, most recently in President Calderon's May 1 state of the union speech, has demonstrated its intent and determination to complete the structural transformation from an import-substitution and public sector-dominated production model to one based on export-led growth and free-market production. With one year of experience, however, the Calderon Administration has only begun its work, and the results cannot be foretold with certainty. Careful concern and attention to developments is needed and desired by all parties. AID sees its role as being the early catalyst for those actions necessary to advance this agenda and to promote reforms that would help lead to EAI debt reduction and continued good relations with International Financial Institutions. The significant reduction in ESF levels has not mitigated our ability to play this strong supporting role.

In summary, continued U.S. economic assistance support and structuring such assistance within the framework established in the PDD and EAI will further bolster U.S.-Costa Rican political ties, move our economic relationship toward further expansion of trade and investment, and strengthen Costa Rica's ability to play a positive regional role.

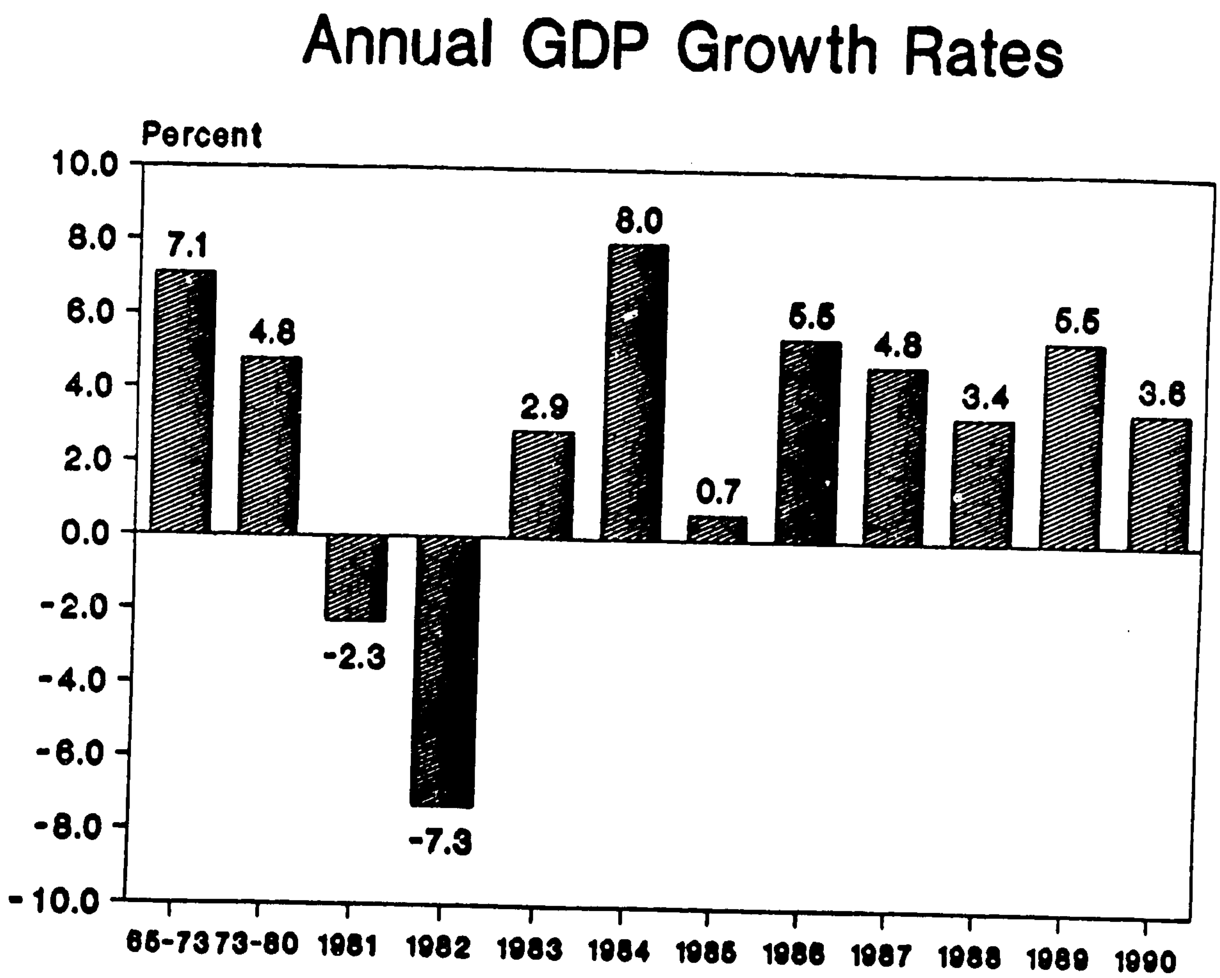
B. Economic Background

1. Output Trends

From 1965 to 1973, the GDP grew at an annual average rate of about 7%, one of the highest rates of growth of the region. The rate of growth slowed in 1973-80, as a consequence of the oil crisis and the general slowdown of world economic activity. By 1980 the GDP stagnated, and then declined in 1981 and 1982 as Costa Rica experienced a sharp deterioration in its terms of trade and lost access to external financing from commercial banks. With improved policies and high levels of economic assistance, mostly from the USG, the economy was reactivated. In 1983-90, the GDP grew at an annual rate of 4.3%, one of the highest rates of growth in the region. (Graph 1 summarizes the rates of growth of the GDP during the period 1965-90.) At the same time, private sector wages have returned to their pre-crisis level, and the unemployment rate has been reduced sharply (Graphs 2, 3 and 4).

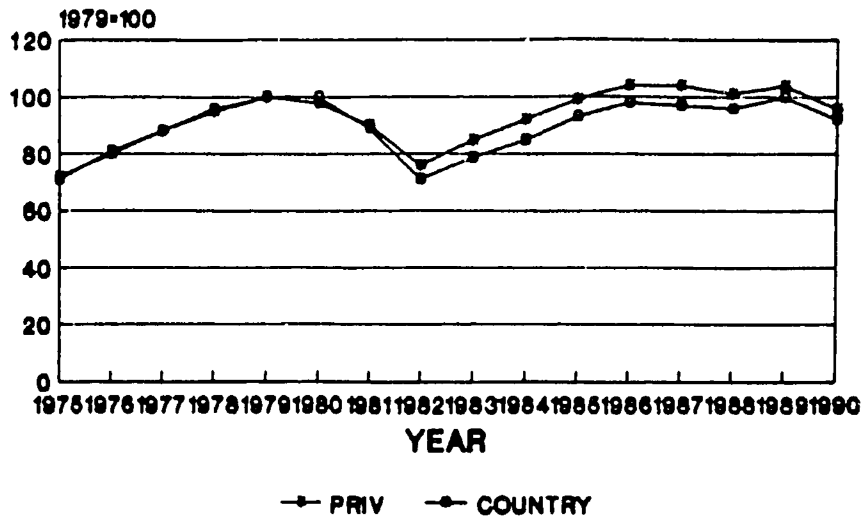
The improvement in economic performance in the period 1983-90 was characterized by a substantial structural transformation of the economy. The economy has become more open, with the ratio of exports of goods and non-factor services to total aggregate demand increasing from 0.25 in 1979-80 to 0.34 in 1988-90. Private investment has increased steadily and has now reached in real terms a level similar to that before the economic crisis. Private employment has increased at a faster rate than public sector employment. Non-traditional exports have surpassed traditional exports in importance. In summary, Costa Rica has been highly successful in reactivating the economy through the promotion of private sector activity, primarily for the production of non-traditional exports.

GRAPH 1


Annual GDP Growth Rates
Percent
10.0
8.0
6.0
4.0
2.0
0.0
-2.0
-4.0
-6.0
-8.0
-10.0
7.1
4.8
-2.3
-7.3
2.9
8.0
0.7
5.5
4.8
3.4
5.5
3.6
65-73
73-80
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990

GRAPH 2

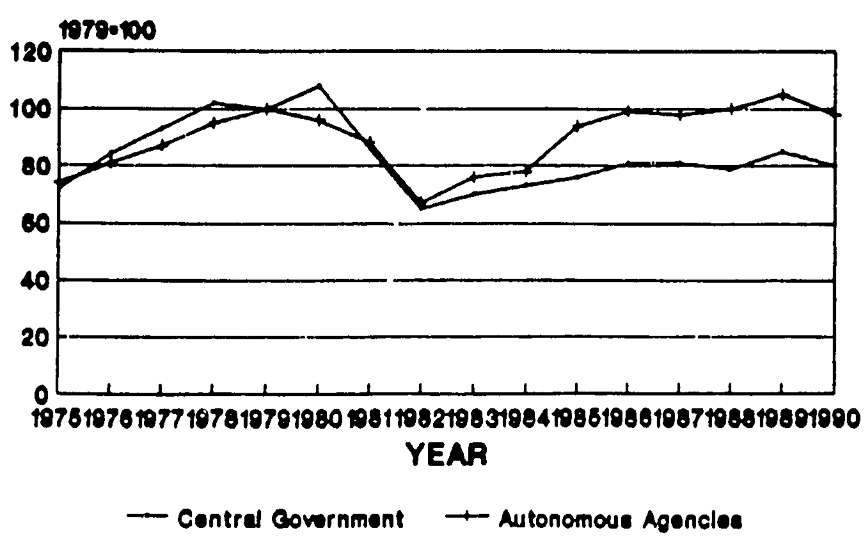
# REAL WAGE INDEX
1979=100



Average wage index

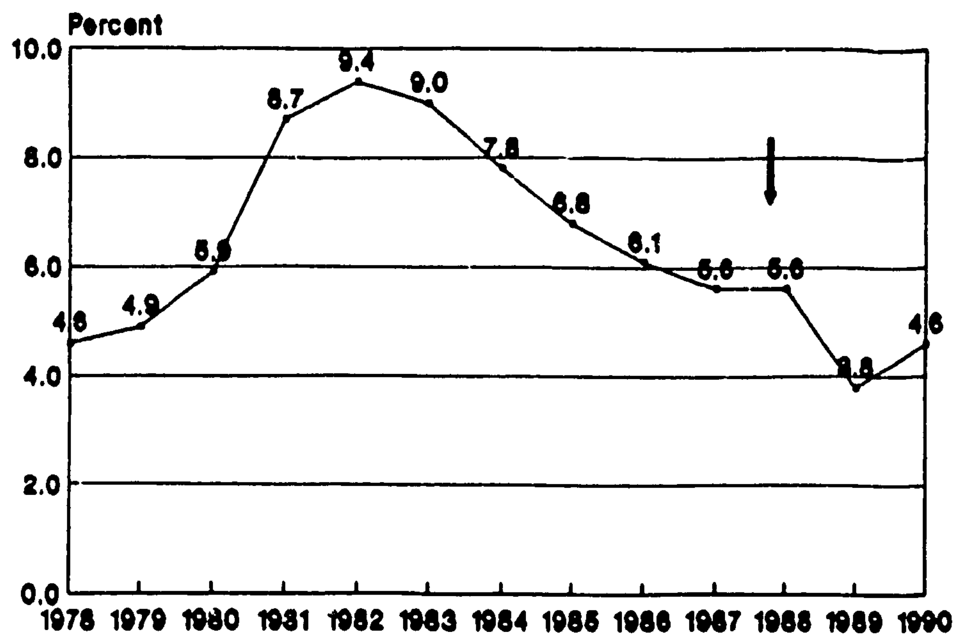
GRAPH 3

Public Sector Wages
Index 1979=100



Average wage index

GRAPH 4
Unemployment Rate
1978-90



Source: La Academia de CentroAmerica

Note: The methodology changed in 1988

The crisis of the early 1980s resulted in a sharp drop of investment, both public and private. Since 1982, however, private investment has increased steadily and averaged over 17% of the GDP during the period 1986-90, the highest level in Central America (Graph 5). As discussed in the balance of payments section of this report, foreign direct investment has been an important factor.

Economic Growth in 1989-90. GDP grew by 3.6% in 1990 compared to a growth rate of 5.5% in 1989. The lower rate of growth in 1990 was due largely to the rapid decline of the construction sector and the slower growth of the government services, manufacturing, and agricultural sectors. The growth rates by sector for 1989 and 1990 were (in percent):

	1989	1990
Agriculture	5.8	4.1
Manufacturing	3.8	3.2
Electricity and water	5.0	5.5
Construction	12.4	-4.1
Government services	2.0	1.5
Other	6.3	4.6
Total	5.5	3.6

Monthly indicators of construction activity (cement sales and construction permits) continued to show stagnation of the sector in January and February 1991. The IMF forecasts the GDP growth at 3.5% in 1991, compared to a forecast of 1.5% made by CEFSA, an economic consulting firm. Given the austere fiscal program being implemented, the IMF target may be too optimistic.

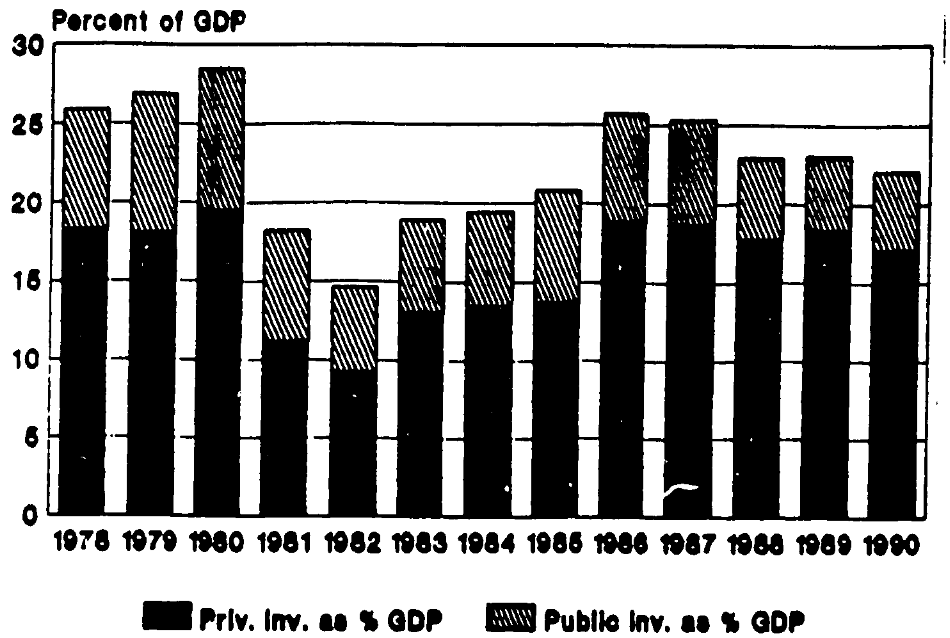
2. Prices

After relative price stability in the period 1965-73, inflation accelerated to 12% per year during 1973-80. With the beginning of the economic crisis, inflation reached the unprecedented level for Costa Rica of 65% in 1981 and 82% in 1982. Since that time, inflation has ranged from 10% to 27% (Graph 6).

Rapid economic growth in 1989 was accompanied by moderate inflation. The cost of living index increased by 10% from December 1988 to December 1989, while the GDP implicit deflator increased by 14%. The low recorded inflation was due partly to repressed inflation, as the prices of gasoline and other petroleum derivatives were not adjusted to account for changes in international prices, and some key public utility rates such an electricity and phone rates were not adjusted to compensate for cost increases. The adjustment of public utility rates, the increase in the price of oil, and the more rapid devaluation of the exchange rate resulted in an increase in the cost of living index of 27% in 1990.

GRAPH 5

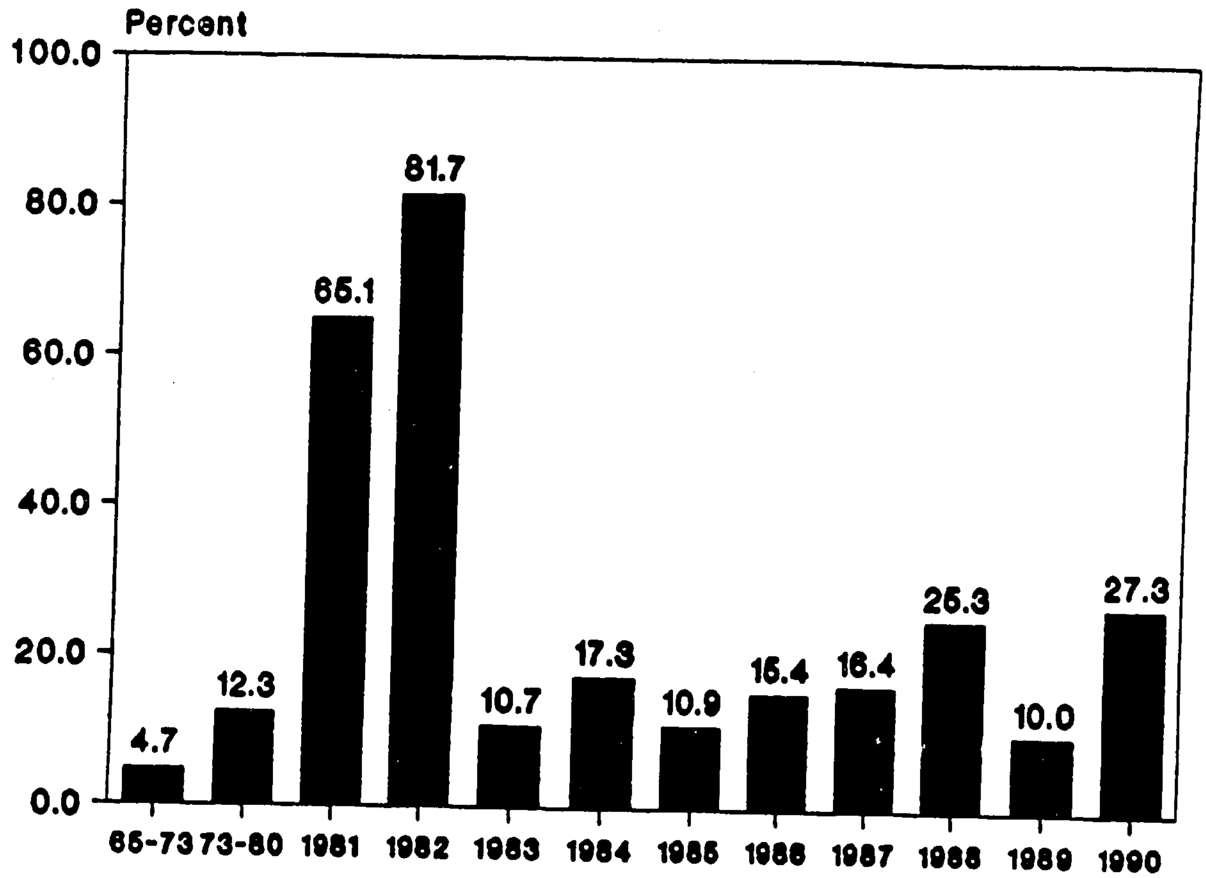
INVESTMENT



Private Inv. incl. change in inventories

GRAPH 6

Inflation



Consumer price index (Dec. to Dec.)

In January and February 1991 the cost of living index rose by 2.5% and 2.9%, respectively, but in March prices rose by a comparatively moderate 1.2%. Price increases in February reflect the increase in the sales tax from 10% to 13%. The IMF program assumes that inflation (December 1990 to December 1991) will be 12%, while the Central Bank president believes it will be 15-18%. CEFSA, a private consulting firm, forecasts inflation at 22% in 1991. The Central Bank forecast seems more realistic than the IMF forecast.

3. Public Sector Finances

The non-financial public sector (NFPS) of Costa Rica comprises the Central Government; about 100 decentralized agencies, of which the most important is the social security system (CCSS); 84 municipalities; and 13 state-owned enterprises (SOEs), of which the most important are the state refinery (RECOPE), the electricity and telephone company (ICE), the state holding company (CODESA), the state marketing agency (CNP), and the social protection council (JPSSJ). The Central Bank, although not a part of the non-financial public sector, has carried out quasifiscal functions, financing the deficit of the public sector and acquiring some of the debt of the NFPS as part of the debt renegotiations with the commercial banks.

Consolidated Public Sector. The trends in the total public sector deficit, including Central Bank losses, are summarized in Graph 7. As a percent of the GDP it declined steadily from 1981 until 1988, but then increased by almost two percentage points. The general improvement through 1988 reflected a decline in the ratio of expenditures to GDP, mainly the result of a reduction in public investment, which declined from 9% of the GDP in 1980 to an average of about 3% in 1987-90. The decline in public investment and in maintenance expenditures has resulted in a marked deterioration of the physical infrastructure of the country and has negative implications for long-run economic growth.

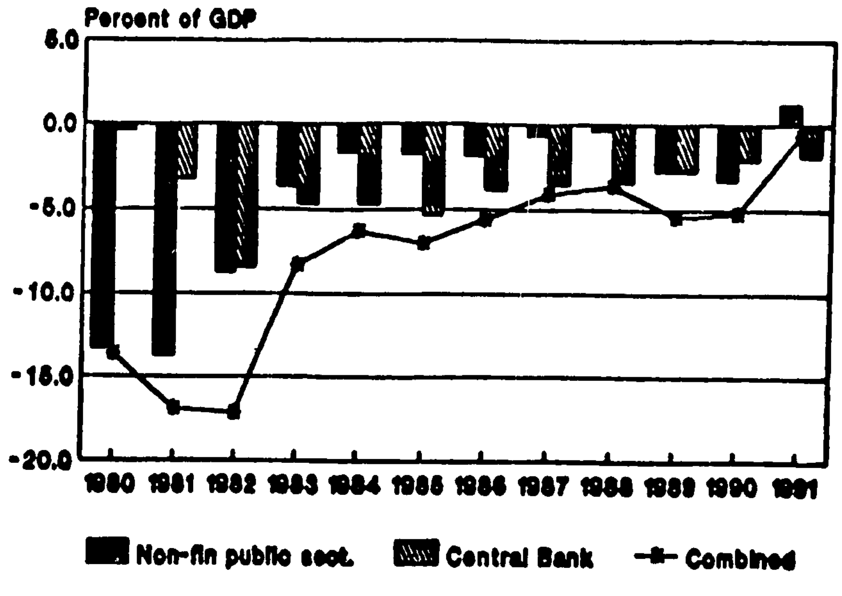
The data for the consolidated public sector balance, as a percent of GDP, are:

	1989 IMF Program	1989 Actual	1990 Passive 1/	1990 Actual	1991 IMF Program
Central government	-1.7	-4.0	-4.5	-4.4	-2.0
Rest of Non-financial public sector	1.9	1.7	-0.4	1.2	3.2
Total NFPS	0.2	-2.3	-4.9	-3.2	1.2
Central Bank	-3.0	-2.7	-2.2	-2.0	-1.8
Total Public Sector	-2.8	-5.0	-7.1	-5.2	-0.6

1/ May 1990 projection assuming no policy reforms.

GRAPH 7

Operations of the Public Sector



In 1989 there was a marked deterioration of public sector finances, the result of a sharp increase in expenditures; this trend continued during the political transition (February to May 1990), since the previous administration did not implement any measures to reduce the fiscal imbalance and left the adjustment effort entirely to the incoming Calderon Administration. In May 1990, the IMF estimated the passive public sector deficit (i.e., the deficit that would result if no measures were undertaken) at 7.1% of GDP.

Immediately after taking office, the Calderon Administration undertook a series of measures designed to reduce the public sector deficit:

a) Electricity rates were increased by 27%.

b) Telephone rates were raised by 16%.

c) Water rates were raised by 30% immediately, and are now being raised by 3.5% per month for 12 months.

d) Prices of petroleum derivatives were raised by about 42% before international prices increased. Since the oil crisis, the prices of oil derivatives has been increased by an additional 41%. Therefore, prices have roughly doubled since May 1990.

e) A decree was enacted in September 1990 to increase oil derivative prices automatically as the price of oil changes.

f) The tariff floor was increased from 5% to 10%, a revenue measure that has the additional benefit of lowering effective protection.

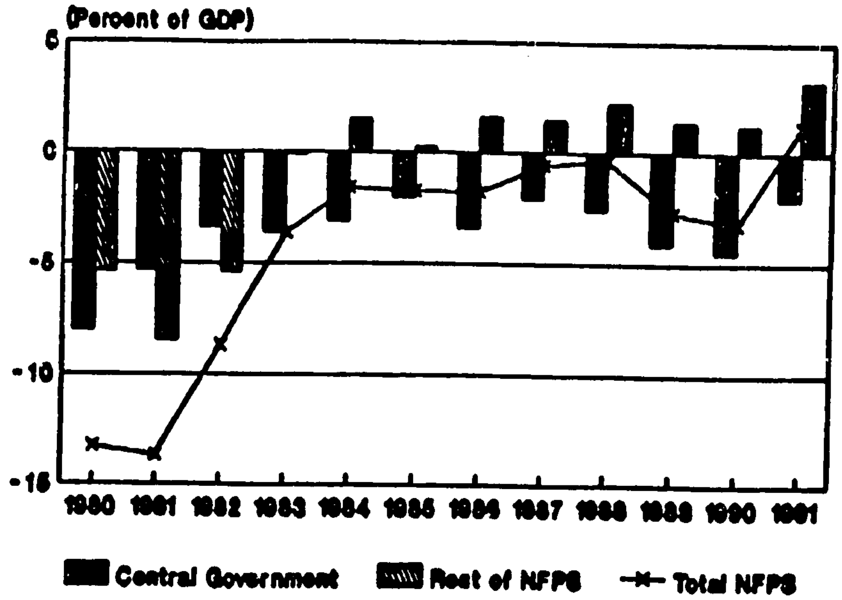
g) Tax administration has been improved.

The effect of these measures was to reduce the passive deficit of the public sector in 1990 from 7.1% of the GDP to an estimated 5.2%, a very tough adjustment which, in relative terms, is about four times greater than the fiscal adjustment planned for the United States in FY 1991. For 1991, the non-financial public sector is expected to have a surplus of 1.2% of the GDP. This is not only a sharp improvement from 1990, but it also emphasizes reductions in Central Government current expenditures. In other words, it is a strong program in quantitative and qualitative terms, as it not only attempts to reduce the deficit, but also tries to solve this most significant problem, i.e., the rapid growth of Central Government expenditures.

Central Government. The deficit of the Central Government declined from 8% of GDP in 1980 to 2.5% of the GDP in 1988, but increased to 4% in 1989 and 4.4% in 1990 (Graph 8). The revenue of the Central Government, and particularly tax revenue, recorded a secular decline from 1983 to 1990. This relative decline in the tax burden is composed of two different trends: a sharp decline in taxes on foreign trade as a percent of GDP, and a more or less stable relationship between domestic transactions taxes and GDP. While export taxes declined sharply, import duties as a percentage of GDP have increased. A reduction in the relative importance of foreign trade taxes is salutory, as it reduces anti-export biases in the tax system.

GRAPH 8

Non-financial Public Sector Balance



Capital expenditures of the Central Goverment declined from 4.7% of GDP in 1980 to 2.0% of GDP in 1990. In 1989 Central Government expenditures grew by 13% in real terms and, as a result, the deficit was more than twice the target stipulated in the Stand-By Agreement with the IMF. The real growth rates of Central Government expenditures in 1988-90, and the projected growth rate for 1991, by main expenditure category, are:

	1988	1989	1990	1991 Program
Total Expenditures	3.6	13.1	0.1	2.8
Fastest growth items	0.7	19.4	5.6	8.4
Wages and salaries	0.7	7.3	7.1	2.6
Pensions	5.0	11.2	10.4	3.6
CATs	-38.2	106.0	16.1	-3.3
Interest on dom. debt	14.7	44.2	22.8	27.7
Transfers	3.4	16.0	-24.8	10.5
of which, to the Univ.	-5.6	4.0	2.0	4.8
Other expenditures	8.9	2.7	-10.5	-10.0

In 1989, subsidies to non-traditional exports (Certificados de Abono Tributario, CATs), interest on domestic debt, and transfers grew faster than total expenditures. In 1990, a major effort to control expenditures resulted in an increase in expenditures in real terms of only 0.1%, but the government was unable to control expenditures for most of the five items listed in the table above.

In 1991, total real expenditures are expected to grow by 2.8% (assuming average inflation of 15%), but this will require a major effort to control the growth of the total wage bill and transfers. Controlling the wage bill at that level requires a reduction of the public labor force of 9,000 jobs and a nominal base salary increase of only 10.2%.

Rest of the Non-financial Public Sector. The rest of the non-financial public sector moved from a deficit position in the early 1980s to a surplus position by the end of the decade. It is presently an important source of finance for the Central Government, as several institutions "invest" their surpluses in Central Government bonds (Graph 8). While these institutions generate surpluses, some are quite inefficient and therefore represent an additional burden on the private sector.

Central Bank. The interest-paying assets of the Central Bank of Costa Rica (BCCR) are lower than the interest-bearing liabilities, and therefore the BCCR generates perennial losses. This situation is the result of a series of activities carried out in the past which included: (a) exchange rate subsidies (the BCCR sold foreign exchange for some purposes such as purchases of pharmaceuticals, oil purchases and foreign debt service at a price lower than the purchase price); (b) assumption of the foreign exchange risk of long-term loans; (c) financing of the operations of CODESA; (d) financing of the losses of the Consejo Nacional de Produccion (CNP), the grain marketing agency; and (e) financing of trade with Nicaragua, a debt that does not pay interest and has a low value in the secondary market.

The quasi-fiscal activities of the BCCR have resulted in losses which increase the monetary base and therefore contribute to inflation and to the loss of international reserves. In the recent past, the expansion of the monetary base was controlled through two mechanisms. First, AID ESF dollar disbursements exceeded the amount that was monetized, and that had a contractionary effect on the monetary base. Second, the BCCR issued its own bonds (bonos de estabilizacion monetaria, BEMs) to reduce liquidity. The first mechanism is no longer available as the amount of AID monetization is similar to dollar disbursements (in 1991 monetization related to AID programs will exceed the ESF dollar disbursements). The second only postpones monetization, as the BEMs have to be redeemed and they pay high interest rates.

In 1991 the non-financial public sector is expected to generate a surplus of 1.2% of the GDP, but the Central Bank is expected to have a deficit of about 11,000 million colones (1.8% of the GDP or 30% of the monetary base). Therefore, the deficit of the Central Bank is an important source of financial instability (Graph 8).

4. Financial Intermediation

During the first half of 1990, bank credit expansion increased rapidly even though the legal reserve requirement was being increased by one percentage point per month, reaching 31% for sight deposits at the end of August. The increase in bank credit was based on an increase in the commercial bank float with the Central Bank, fueled by a mechanism known folklorically as the "bicicleta," which had two elements. First, state-owned banks exchanged cashier's checks, and while the receiving bank's account at the Central Bank was credited the day the check was presented, the account of the bank issuing the check was not debited until the following working day, thus permitting the issuing bank to use its increased liquidity to purchase Central Government bonds. Second, state-owned banks purchased Central Government bonds with cashier's checks. While the account of the Central Government at the Central Bank was credited the same day the bond was purchased, the account of the bank that purchased the bond was not debited until the following working day. These transactions were repeated daily, and their circular nature gave the "bicicleta" its name. We understand that while this happened, the Central Bank and the Auditor General of Financial Institutions "looked the other way." The use of the "bicicleta" was the equivalent of financing the public sector deficit by the Central Bank, i.e., the deficit was monetized.

Reducing the "bicicleta" was one of the earliest corrective measures taken by the Calderon Administration. This reduction, however, had to be accompanied by a reduction in the legal reserve requirement on sight deposits from 31% to 15% at the end of August, in order to avoid a sharp reduction in liquidity. In a sense, the Central Bank action legalized the "bicicleta," and the excess liquidity caused by that mechanism was eliminated over six months. At that same time, credit to the private sector was frozen at the level of August 31, 1990, and the freeze remained in effect until the end of the year. Since October, reserve requirements on sights deposits have been increased, and are now 25%.

Other mechanisms of indirect finance of the public sector have emerged in the last few months. For example, bank regulations have permitted the commercial banks to count as reserves Central Government overdrafts as well as past-due government bonds. This was permitted at a time when Central Bank liquidity was at an all-time low, and the commercial banks were threatening to stop making payments on government checks. Controlling the increase of the money supply of domestic origin that results from these unorthodox mechanisms should be a priority for the monetary authorities.

Nominal short-term interest rates rose by between 7 (for Central Bank stabilization bonds) and 9 percentage points (for government securities) during the second half of 1990. Commercial bank interest rates moved in step with these official rates and by year-end stood at 36 percent for six-month time deposits and 41 percent for loans, i.e., in the range of 7-11 percent in real terms.

With the credit freeze imposed at the end of August, the expansion of bank credit to the private sector for 1990, as a whole, was contained to 7.4 percent. However, there was a fairly strong increase in net bank credit expansion to the public sector. Moreover, bank liabilities to the private sector fell in real terms, perhaps due to uncertainties about exchange rate policy, the sharp increase in inflation, and some disintermediation following the freeze on bank credit in August. Under these circumstances, the loss in net international reserves continued in the second semester, albeit at a lower rate than in the first semester, and for the year as a whole amounted to US$514 million.

5. The Balance of Payments

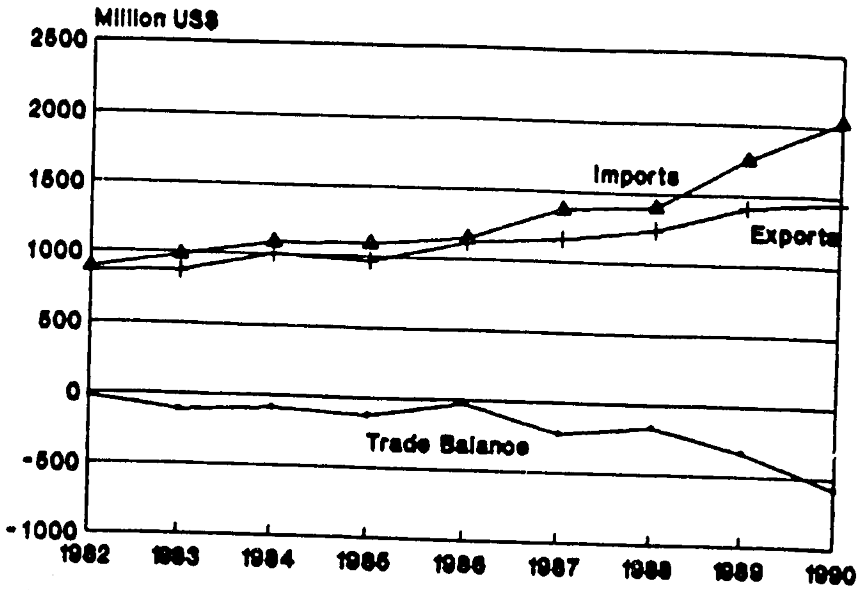
Since the economic crisis of 1981, Costa Rica has implemented policies designed to enhance the role of competitive market forces in resource allocation, resulting in major positive effects on export growth, particularly non-traditional exports. In 1986, the value of exports of non-traditional commodities surpassed the value of coffee, and in 1988 it surpassed the value of all traditional exports combined. Banana exports grew rapidly in 1989 and 1990. (Graphs 9 and 10.)

Since 1982, the current account deficit has fluctuated widely but has widened steadily from US$250 million in that year to US$660 million in 1990. While exports have increased rapidly, imports have increased at a faster rate. The 1987-90 actual data and the projections for 1991 are (in US$ million):

	1987	1988	1989	1990	1991
Current Account	-408.5	-311.7	-465.6	-657.8	-217.7
Of which, trade balance	-282.4	-239.5	-429.7	-676.5	-269.7
Capital Account	-202.4	-150.4	10.6	-127.3	153.2
Balance of Payments Support	120.0	125.0	105.0	110.0	230.0
Rescheduling	42.9	108.6	229.7	1023.4	135.4
Arrears Subject to Rescheduling	253.9	212.0	203.0	-861.8	-118.9
Overall Balance of Payments	-194.1	-16.5	82.7	-513.5	182.0

GRAPH 9

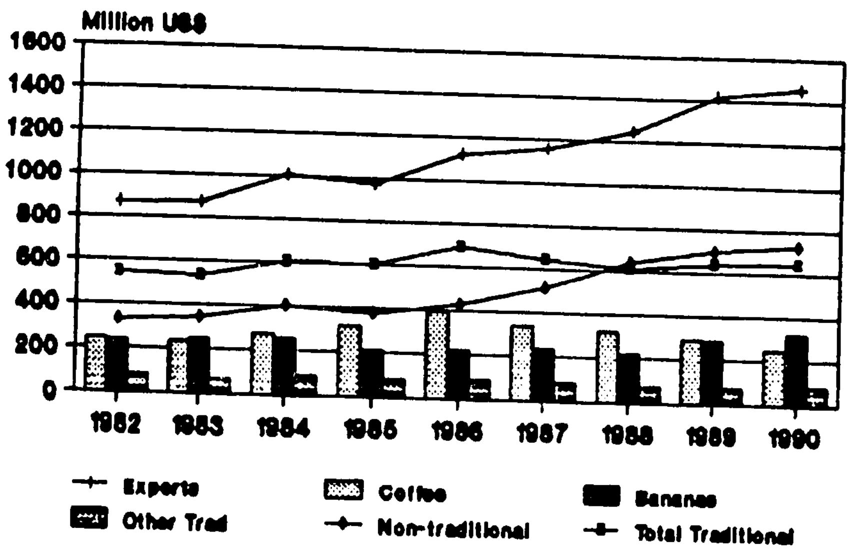
Balance of Trade
1982-90



Exports include V.A. by drawback

GRAPH 10

Merchandise Exports
1982-90



Exports include V.A. by drawback

In 1990, lower export prices for coffee and slower growth of non-traditional exports (6% compared to more than 20% in 1989) resulted in a stagnation of exports. Imports, meanwhile, grew by 16% in U.S. dollar terms.

The capital account (excluding balance of payments support) deteriorated from a surplus of about US$11 million in 1989 to a deficit of US$127 million in 1990. This deterioration can be explained by delays in disbursements of SAL II, large payments related to the commercial bank debt-restructuring agreement, and a reduction in private capital inflows from the unusually high levels of 1989. In the last quarter of 1990, however, there was a sharp increase in private capital inflows, associated largely with investment in tourism facilities and banana plantations. The overall balance of payments deficit (after debt relief) was US$514 million.

The decline of net international reserves of US$514 in 1990 included an increase in arrears of US$210 million. About US$120 million of these arrears arose from delays of more than 15 days in processing applications for foreign exchange for current international transactions (the "presa"); US$60 million represented arrears to Paris Club creditors on commitments from the 1989 Paris Club Agreement; and most of the remainder was due to Brazil and CABEI.

The balance of payments projections for 1991 prepared by the Central Bank and the IMF are based on a resurgence of merchandise exports (growth of 12.3%), the result of an increase of over 14% in non-traditional exports. The balance of payments projections assume that non-oil imports will decline by 11.6%. Achieving this would require a tight monetary policy, a depreciation of the real effective exchange rate, and a run-down of inventories.

Balance of payments support includes US$30 million from AID (US$6 million from 1990 ESF and US$24 million from 1991 ESF), about US$130 million from the IMF, and a US$200 million disbursement from World Bank structural adjustment loans (US$120 million from SAL II and US$80 million from SAL III). To meet the target increase of net international reserves (US$333 million), additional financing of US$150 million would be required. Potential sources of finance to fill the balance of payments include Mexico (after the outstanding bridge loan is paid), Taiwan, and the Inter-American Development Bank, as well as additional debt relief.

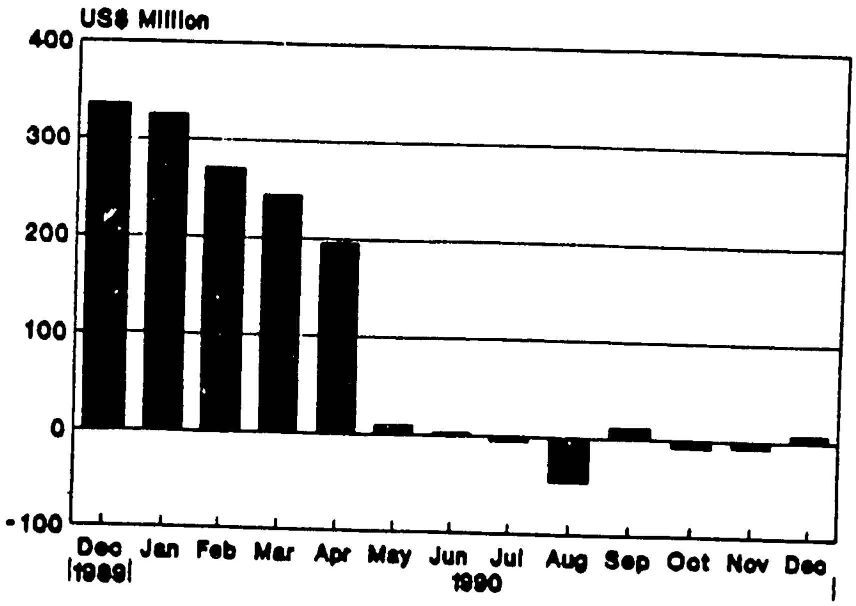
6. International Reserves

In 1990, the net official reserve (NOR) position of the Central Bank deteriorated markedly. This deterioration was particularly rapid in the first five months of the year when reserves declined an average of US$65 million per month (US$36 million excluding the effects of the debt buy-back). When the Calderon Administration took office, the NORs were depleted and freely usable reserves were only the equivalent of two weeks' imports of goods and non-factor services. (Graph 11.)

To maintain a minimum level of liquid reserves, the Central Bank was forced to lenghten the waiting period for importers to obtain foreign exchange (Graph 12). By the end of 1990, requests for foreign exchange in the Central Bank for more than 15 days ("presa over 15 days") reached US$120 million. In 1991, the "presa over 15 days" was reduced sharply, reaching US$34 million as of April 10, 1991.

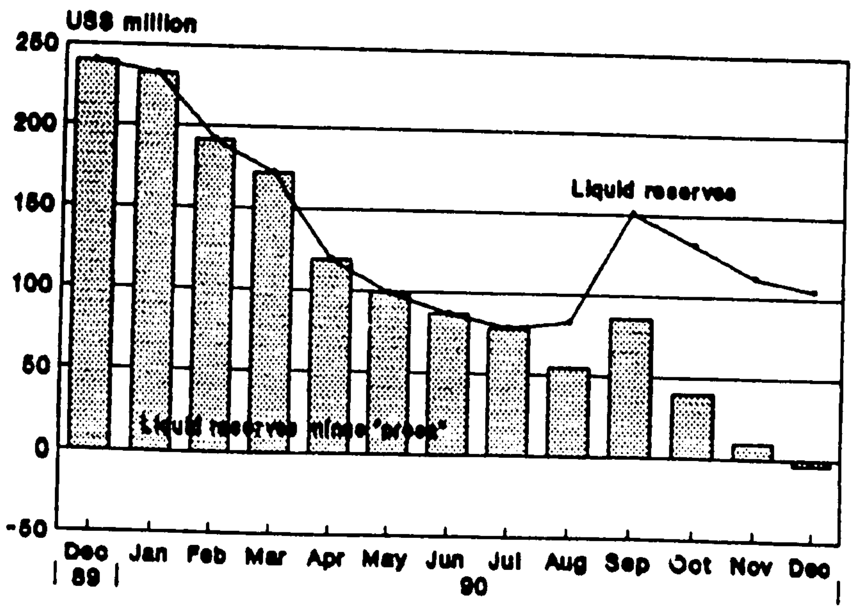
GRAPH 11

Net Official Reserves



GRAPH 12

Liquid Reserves



7. Exchange Rate Developments

Costa Rica devalued the exchange rate sharply in 1981 but from that year to 1983 the real effective exchange rate appreciated. In 1985 the authorities began to implement a crawling peg policy whereby the exchange rate generally is adjusted to compensate for the difference between the inflation rate in Costa Rica and that of its main trading partners. This policy was effective in maintaining and/or enhancing international competitiveness until 1988. Mini-devaluations of the exchange rate continued during 1989, but were insufficient to compensate for domestic inflation vis-a-vis the inflation of Costa Rica's trading partners. The real effective exchange rate appreciated in real terms by 5% between December 1988 and December 1989. In 1990, the rate of devaluation accelerated sharply and the real effective exchange rate depreciated by 2%.

8. External Debt

The debt buy-back (described in II-C below) reduced the commercial bank debt by about US$1.0 billion. The total external debt at the end of December 1990 (in millions of U.S. dollars) was:

Multilateral	1,179
Commercial Banks	632
Bilateral	1,322
Other	40
Total	3,173

The external debt is equal to 1.6 times exports of goods and non-factor services in 1990, a manageable level. The proportion of this debt with the multilateral development banks is fairly high (40%), which may limit Costa Rica's ability to borrow from those institutions.

C. Commercial Debt Restructuring

In May 1990, Costa Rica concluded a restructuring of its commercial debt under the framework of the Brady Plan. Of a total commercial debt of US$1,598 million (including US$366 million of past due interest (PDI)), Costa Rica purchased US$990 million (62% of the total) for US$158 million (16% of par value). Bonds, with 6.25% interest, were issued for debt not tendered for repurchase, and some of these bonds carry an 18-month interest guarantee.

The total cost (in millions of U.S. dollars) was:

Buy-back	158
Down payment of 20% of non-purchased PDI	29
Interest guarantee deposit	38
Total	225

The original debt buy-back was to be financed by grants and loans from bilateral sources, IMF resources, and a long-term loan from the World Bank and Japan (SAL II second disbursement of US$70 million). However, as the Arias Administration was not in compliance with the terms established in the IMF arrangement and SAL II, those two important sources of financing were not available to finance the debt buy-back.

To conclude the buy-back on the agreed date, the Arias Administration negotiated a bridge loan of US$70 million from Mexico and Venezuela (to be repaid from the SAL II disbursement), negotiated a short-term loan from Banco Internacional de Costa Rica (an international bank owned by Costa Rica's state-owned banks), and agreed to use US$43 million of Central Bank reserves to complete the funding required for the buy-back. (A US$27.5 million loan for 24 hours was provided by the U.S. Federal Reserve Bank of New York.)

The actual financing was as follows (US$ million):

AID ESF grant	33
BICSA loan	30
Central Bank Reserves	43
Taiwan loan	40
Mexico/Venezuela bridge loan	70
Other	9
Total	225

The Calderon Administration concluded the buy-back as scheduled (about two weeks after taking office), but this contributed to a marked reduction of liquid reserves, which has, in turn, severely limited Central Bank actions.

D. Progress under SAL II and Plans for SAL III

The GOCR met all conditions of the first disbursement of SAL II, including the lowering of tariff barriers and management improvements of state-owned banks in 1989, roughly on schedule. The second and third disbursements have been delayed for lack of compliance in three areas. First, the fiscal situation deteriorated in 1989 and the GOCR was unable to reach the target for public sector savings (the savings target was 6%, while the actual savings were about 3.5%). Second, the GOCR had failed to modify the system of export subsidies to satisfy the World Bank. Third, changes to permit private grain importers to import on equal footing with the CNP were not implemented. These latter two conditions were met late in 1990, and the poor fiscal performance remained the only stumbling block. We understand that the World Bank staff is ready to ask the Board of Directors to waive the public sector savings target for second and third tranche releases, as Costa Rica would have met fully 13 out of 14 conditions of SAL II.

Negotiations on a SAL III are proceeding. The SAL III will probably be co-financed by the World Bank, Japan and the IDB, with a total financing of up to US$300 million. SAL III would include conditions in four areas:

a) Public sector efficiency, including improvements in the social security system, improved budgeting, and reduction of the public labor force.

b) Trade liberalization, with emphasis on lowering effective protection significantly.

c) Financial sector reform, including an increased role for private financial intermediaries, improved banking supervision, and measures to increase the efficiency of state-owned banks.

d) Modification of the social program to target assistance to the lowest-income segments of the population.

E. The 1991 IMF Agreement

On March 5, 1991 the GOCR submitted a letter to the IMF management requesting: (a) a stand-by arrangement in an amount of SDR 33.64 million, or 40% of quota (US$49 million); (b) compensatory financing under the export shortfall and the oil import cost components of the compensatory and contingency financing facility (CCFF) in the amount of SDR 33.64 million (US$49 million); and (c) external contingency financing to cover adverse developments related to oil import prices and coffee export prices in an amount up to a maximum of SDR 21 million (US$30 million). Financing under the latter facility contains a symmetry clause, i.e., if prices are more favorable than envisaged in the program, purchases under the stand-by arrangement would be reduced and/or more net international reserves would have to be accumulated. The letter was accompanied by a Memorandum of Economic Policy which outlines the basic assumptions and policies of the economic program for 1991, and contains the quarterly performance targets.

<u>The key assumptions used in the formulation of the 1991 program are</u>:

- Real GDP growth: 3.5%
- Implicit GDP deflator growth: 17.9%
- Inflation (December to December): 12%
- An aggressive exchange rate policy would result in a reduction of non-oil imports of 11.5%. This implies a rapid run-down of non-oil inventories.
- Total exports would increase by 12%, composed of an increase of 9.5% in traditional exports and a 14% increase in non-traditional exports.
- The combination of export growth and decline in imports would result in a reduction of the current deficit of the balance of payments from 11.4% of the GDP in 1990 to 3.5% in 1991.
- Additional foreign financing of US$150 million or additional debt relief will have to be obtained in order to close the balance of payments gap.

The centerpiece of the program is the reduction in the deficit of the public sector from 5.2% of GDP in 1990 to 0.5% in 1991. The composition of the deficit would be (in percent of GDP):

Central Government	-2.0
Rest of non-financial public sector	+3.3
Non-financial public sector (NFPS)	+1.3
Central Bank	-1.8
TOTAL BALANCE	-0.5

The fiscal program consists of: (a) a tax package enacted in January 1991 which broadens the base of the sales tax and increases rates temporarily from 10% to 13% (estimated yield: 1.2% of the GDP); (b) a temporary import surcharge of 10% that will be eliminated in June 1991 (estimated yield: 0.7% of the GDP); and (c) a second fiscal package, not yet passed by the Legislative Assembly, that would tax export subsidies and pensions for public employees beyond a certain level, and improve tax collections (estimated yield: about 0.2% of the GDP beginning in 1992). Other revenue enhancement measures include: (a) monthly increases in electricity rates of 1.8%; (b) an increase in the price of oil derivatives of 13% in excess of cost increases; and (c) an increase of 10% in basic telephone rates as well as rate increases for other phone services.

Important measures designed to reduce government spending are being implemented. These include: (a) reducing the government labor force by 9,000 employees in 1991 (a 7% reduction in work force); (b) reducing Central Government transfers to the universities, outlays for discretionary pension benefits, and transfers to a number of decentralized agencies; (c) abandoning indexation of public sector wages and permitting an increase of only 5% in June 1991, on top of an increase of 5% which took place in January 1991; and (d) postponing a salary increase for teachers which was granted by the Arias administration, thus saving about one billion colones (US$10 million).

The authorities are also pursuing a number of important initiatives that, while not having an immediate fiscal impact, would contribute importantly to the improvement of public finances. These include: (a) raising the minimum retirement age under the social security system by about five years, to be phased in over a period of about five years beginning January 1991; (b) overhauling the government-administered pension schemes to reduce their budgetary cost; (c) introducing legislation to limit court-mandated salary increases for government workers ("laudos"); (d) rationalizing the system of export subsidies; and (e) divesting state-owned enterprises.

The program includes five sets of quarterly targets, beginning March 31, 1991: (a) Central Government expenditures; (b) increase in net domestic financing of the non-financial public sector (NFPS); (c) stock of net domestic assets of the Central Bank; (d) net international reserves of the Central Bank; and (e) stock of external payments arrears.

A brief discussion of each set of targets is presented below. The first quarter targets are indicative, i.e., the first formal targets are for the second semester.

(a) Limits for Cumulative Changes in Central Government Expenditures

The rapid growth of Central Government expenditures in 1989 (31%, compared to an average inflation of only 16.5%) was the main cause of the fiscal crisis. The 1991 program limits government spending to 116,400 million colones, an increase of about 18% over 1990. Given the momentum of certain expenditures (wages and salaries, pension payments, CATs, interest on the domestic debt, and transfers), maintaining growth at 18% in nominal terms requires a significant effort. It is important to note, however, that the target was established in nominal terms, and therefore if inflation were to be higher, greater fiscal austerity would be required to meet the expenditure target.

To determine if the quarterly targets are consistent with past seasonal spending patterns, we have compared the spending patterns of the program with the average for 1987-90. The cumulative quarterly targets for 1991 and the historic patterns of cumulative expenditures are:

	1991 Program Targets	1991 Program Targets	1987-90 Average
	(Million colones)	(% of total)	(% of total)
Quarter I	26,000	22.3	22.5
Quarter II	52,000	44.7	46.0
Quarter III	81,000	69.6	68.6
Quarter IV	116,400	100.0	100.0

Based on the historic expenditure patterns, the first quarter target does not seem overly strict, while the second semester cumulative limit would require an expenditure level 1.3 percentage points lower than the average for 1987-90. Meeting this target will present a problem only if the inflation assumption is significantly lower than actual inflation. Data for the first quarter are not available as of April 29, 1991.

(b) Limits for Cumulative Change in the Net Domestic Financing of the Non-Financial Public Sector

The program limits the net domestic financing of the Non-Financial Public Sector (NFPS). The limit includes financing from the banking system and from the non-bank public, and changes in the floating debt (giros por pagar). The reduction in the stock of domestic debt (12,900 million colones or 2.1% of the GDP) would be accompanied by an increase in foreign debt of about 5,100 million colones (0.8% of the GDP). Therefore, the surplus of the NFPS would be 1.3% of the GDP. A problem arises because during the first six months of 1991, foreign finance is negative (disbursements are lower than amortizations), and therefore the NFPS must reduce its domestic debt significantly during the first six months of 1991.

The data can be summarized as follows:

	Program Limits	Net Foreign Finance	Total Finance
Cumulative Change from December 31, 1990			
Through end March 1991	- 4,300	-2,400	- 6,700
Through end June 1991	-14,000	-3,000	-17,000
Through end September 1991	-12,900	1,100	-11,800
Through end December 1991	-12,900	5,100	- 7,800

These targets will be very difficult to meet, particularly if actual revenue increases are lower than forecasted. They could be lower, for example, if there is less growth than assumed in the program. Meeting the target will be more difficult during the first semester of 1991 when foreign loan disbursements are expected to be negative. Data on performance are not available as of April 29, 1991, but there are indications that the target was not met by at least 2,000 million colones (US$17 million).

An underlying assumption is that US$80 million of SAL III will be made available to the Central Government in 1991. If the disbursement is delayed, which is highly probable, the limit will be adjusted downward, i.e., the reduction in the stock of debt will be less by the full amount of the shortfall in financing from SAL III (9,200 million colones, at the exchange rate of the program).

(c) Ceilings on the Stock of Net Domestic Assets of the Central Bank

The marked increase of net international reserves (NIRs) as part of the program (discussed below) would require a sharp decline in the net domestic assets of the Central Bank. (The monetization of HCOLC makes it more difficult to meet this particular target). The ceiling on net domestic assets assumes a sharp decline in bank credit to the public sector, consistent with the improvement in the fiscal situation and the assumption that domestic financing of the Central Government will depend almost exclusively on the placement of bonds with the non-bank public. The reduction in banking credit to the public sector would permit an increase in credit to the private sector of 17% in 1991.

The ceilings are (in millions of colones):

Periods	Stock Outstanding
December 31, 1990	68,953
January 1 - March 31, 1991	51,000
April 1 - June 30, 1991	38,195
July 1 - September 30, 1991	44,078
October 1 - December 31, 1991	36,384

The first quarter target was met by a significant margin.

(d) Targets for the Stock of Net International Reserves of the Central Bank

The program calls for an increase in net international reserves (NIRs) of US$333 million, consisting of an increase of net official reserves (NORs) of US$120 million and a reduction of arrears of US$213 million. A significant reduction of arrears would be accomplished through debt restructuring, which would require rapid negotiations, particularly with CABEI and Brazil. The targets would be adjusted for shortfalls in the timing of inflows related to World Bank structural adjustment lending (if the delay is considered temporary by the IMF) and the US$30 million in balance of payments support from Taiwan.

The targets are (in US$ million):

Periods	Stock Outstanding
December 31, 1990	-304.9
January 1 - March 31, 1991	-135.9
April 1 - June 30, 1991	-12.9
July 1 - September 30, 1991	-52.0
October 1 - December 31, 1991	28.4

Available data indicate that the first quarter targets was met. Meeting the targets for the other three quarters of 1991 will depend largely on whether the assumptions related to the balance of payments are realistic.

(e) Limits on the Stock of External Payment Arrears

The Program would require a reduction of the stock of payments arrears of US$213 million. While the reduction of arrears to foreign creditors can be achieved largely through reschedulings, the Program requires a reduction of the stock of foreign exchange requests at the Central Bank in excess of 15 days (the "presa"), which would, of course, require the use of liquid reserves.

The limits on external payments arrears are (in US$ million):

Periods	Limits
December 31, 1990	272.9
January 1 - March 31, 1991	111.1
April 1 - June 30, 1991	67.6
July 1 - September 30, 1991	61.5
October 1 - December 31, 1991	60.3

The first quarter targets were not met by US$16 million for purely technical reasons, and we understand that the IMF would not consider this non-compliance with the target.

The IMF Program has been designed at a time when Costa Rica is facing a critical balance of payments situation, with large deficits in the current and capital accounts of the balance of payments, mounting external arrears, and a low level of liquid international reserves which does not allow the Central Bank to provide foreign exchange to importers on a timely basis.

The centerpiece of the Program is a drastic fiscal adjustment that would result in a surplus of the NFPS of about 1.3% of the GDP in 1991, compared with deficits of 2.7% and 3.2% in 1989 and 1990, respectively. This is a rapid adjustment, but a necessary one. Program design gave proper emphasis to controlling Central Government spending, and to solving some of the structural problems of public sector finances, including controlling transfer payments, export subsidies, the size of the wage bill, and pensions. These structural problems of public sector finances have been at the center of USAID/Costa Rica's policy agenda and technical assistance program.

The limit on Central Government expenditures is defined in nominal terms, and therefore the inflation assumption (12% on a December to December basis) is critical. If inflation exceeds the target (the Central Bank President has used a figure of 15%, while CEFSA, a private consulting firm forecasts 1991 inflation at 22%) it will be difficult to meet the target. Inflation in the first three months of the year reached 6.9%, and although February inflation (3.0%) was affected importantly by the increase in the sales tax from 10% to 13%, a sharp and perhaps unrealistic decline in the rate of inflation (to a rate even lower than March's 1.3%) would be required to meet the inflation assumption of the Program. The April price rise of 2.8% will make achievement of the 1991 inflation target even more difficult.

Even if inflation does not exceed the target significantly, it will be difficult to meet the limit on cumulative change in the net domestic financing of the public sector, particularly in the first semester of 1991 when foreign lending flows will be negative. Preliminary data indicate that the first quarter indicative target was not met.

The reserve targets depend importantly on the assumptions on import and export levels (non-oil imports are expected to decline by 11.5% and exports are expected to increase by 12%) and on the ability of the GOCR to obtain additional foreign financing of US$150 million. Exchange rate policy will be important for meeting these targets, although a significant real depreciation would increase inflationary pressures. The monetary authorities will have to maintain better control over unorthodox public sector financing schemes, whether they are "bicicletas," "patinetas," or whatever new mechanism may be devised to manipulate the monetary base.

Difficult political decisions are required to meet the IMF targets, and many of those decisions already have been taken. Three future actions are likely to be particularly difficult: (a) the wage adjustment of June 1991 should not exceed 5%, and this would be particularly difficult because of present inflation trends; (b) postponing the salary increase to teachers which was granted by the Arias Administration will face strong opposition from a well organized labor union; and (c) privatization, particularly if it goes beyond the CODESA subsidiaries, faces lack of necessary legislative cooperation by the PLN. Given the difficulties of these measures, it is commendable that the GOCR is willing to undertake them, thereby recognizing the importance of putting its economic house in order.

III. Evaluation of Performance Under ESR IX

Section II.B discusses in detail the important steps taken by the Calderón Administration to implement a coherent economic program. The reduction of the deficit in 1990 through revenue increases and expenditure reductions, the increased rate of exchange rate devaluation, and the elimination of deficit financing through the "bicicleta" are clear indications that the GOCR is implementing a coherent set of economic policies designed to restore financial stability. This section discusses measures taken in compliance with other covenants of ESR IX (FY 1990).

The Mission is pleased with progress made overall and in particular with progress on public sector efficiency issues. ESR VIII covenants 5(N) and 5(O) and 5.3(L) of ESR IX requiring the co-generation of electricity and the issuance of regulations governing prices for this privately generated electricity have been fully complied with. The "norma" approved in the Legislative Assembly has permitted investors to begin development and sale of co-generated electricity to the national grid, and an Executive Decree issued this period allows private sector firms to produce and sell electricity within an established rate structure.

Also in the area of public sector efficiency, major progress has been made as a result of policy dialogue through covenants VIII 5(M), IX 5.3(J) and IX 5.3(K) on pension reform, covenants IX 5.3(D), 5.3(E) and indirectly through 5.3(O) on the Labor Mobility Program, and covenant 5.3(F) on Customs Reform. The performance of these reforms will be further described in this Section.

As a result of covenants ESR IX 5.3(G), 5.3(H), 5.3(N) and 5.3(P) and major policy dialogue with the Mission, the World Bank and the IMF, the GOCR reorganized the GOCR's State Reform leadership. The Ministry of the Presidency, supported by the major opposition party, has designed a plan of action that will be implemented by a bipartisan team that in the next four months will establish the actions to be undertaken towards achieving a reform of the state. The plan is consistent with the conditionality of the Letter of Intent signed recently with the IMF, the conditionality for the negotiations of a Third Structural Adjustment Loan and AID conditionality under ESR IX, and the strategy for a future ESR X. The plan of action will be submitted to the Mission before May 15, 1991 and will call for executing seven politically acceptable public sector efficiency projects:

1. Elimination of Monopolies: National Insurance Institute (INS), National Costa Rican Refinery (RECOPE), and the National Liquor Factory (FANAL) in the short term. The National Banking System will also be a continuing subject of studies over the long term.

2. Privatization of public institutions: i.e. FERTICA (Central American Fertilizers), CEMPASA (Pacific Cements), RECOPE (Costa Rican Oil Refinery), FANAL (National Liquor Factory), and SINART (National Radio and Television System).

3. Privatization of public services: i.e. hospital laundries, security services for banking and other institutions, etc.

4. Restructuring of the following sectors to eliminate budget duplicity, overstaffing redundancy and inefficiencies: Health, Housing, Energy and Communications, Security, Foreign Commerce, Agriculture and Transport.

5. Develop Legislation to improve GOCR administrative procedures.

6. Implementation of a Budget Reform plan.

7. Improvement of the National Civil Service System

The Mission will support this entire process through the programming of local HCOLC from earlier ESR agreements for local consultancies and with dollar support through the Project Assistance and Technical Support project. All of this will be done in coordination with the World Bank and other international donors.

Finally, under ESR X 5.3(Q) conditionality and reflecting policy dialogue efforts and the GOCR's desire to encourage nontraditional exports, a Local Currency Programming Agreement to support an Export Fund (FUNDEX) was signed March 14, 1990, between the GOCR and AID, assigning the colon equivalent of US$27.15 million (associated with ESR VIII) for this purpose. The criteria and procedures for the use of these funds were defined among the GOCR and AID in a separate written agreement of October 21, 1990, signed between AID, FUNDEX and the GOCR. The Agreement designated FUNDEX, a non-profit foundation, as the implementing agency of the Agreement and as such, gave it powers for direction, custody and administration of the Export Fund. FUNDEX received 2,202,137,000 colones from the Special Account in the BCCR (to its account in the BCCR) in December 1990.

The GOCR is currently making efforts to attract additional resources to the Export Fund from Taiwan and other international donors. As part of its efforts, the GOCR has requested an independent study of the Costa Rican Export Sector by the World Bank for use as a tool in seeking other donor support for the Export Fund at the Consultative Group meeting in Paris in the second semester of 1991.

A. Labor Mobility

The Costa Rican public sector grew from a relatively trim 6.1% of total employment in 1950 to a bloated 16.4% in 1990, after having reached about 20% in the early 1980s. According to the GOCR's own estimation, approximately 24% of those employed are superfluous. This comes at a time when, ironically, many private sector firms are experiencing a labor shortage. The size of the public sector, and in particular the high level of current expenditures, threaten Costa Rica's economic recovery, which though impressive is still fragile and incomplete. One reason for the size of public sector expenditures is the imbalance between the public and private sector wage bills. The average monthly salary for the private sector is significantly less than either that of the government or autonomous government institutions, a differential that persists even after taking into account differences in occupational structure between the public and private sectors.

If the GOCR did nothing to correct this, the fiscal deficit could climb to C53 billion in 1991. Also, if it undertook an economic adjustment without international assistance, the country would have to forego payment on its external debt, and the trade deficit would be adjusted by a sharp devaluation in the colon and an accompanying acceleration of inflationary pressures. Selling bonds on the internal credit market would absorb most domestic savings, pushing up private sector interest rates and hurting investment. Recognizing this, the GOCR has been more than willing to work with international organizations for the provision of financing, and the establishment of a plan to substantially reduce government expenditures.

Beginning in 1989, and largely through the efforts of the Ministry of the Presidency's Office of Control and Follow-up (OCS) and the Ministry of Agriculture, serious planning discussions began with the Arias Administration regarding the design and funding of a labor mobility program to move unnecessary GOCR employees to the private sector. Largely as a result of this, the reduction of the public sector workforce was an integral part of ESF conditionality in both the 1989 and the 1990 PAADs, established in ESR VIII Covenant 5.3(L) and ESR IX Covenant 5.3(D) and 5.3(E). The GOCR began working initially with three institutions in the area of labor mobility: the National Railroad (INCOFER), the National Production Council (CNP) and the Ministry of Agriculture (MAG). The GOCR is concerned about these organizations' drain on the already weakened system of public finance, and how they could affect future discussions with the IBRD for sector loans to be used to treat various agricultural and transport inefficiencies.

Adhering to this theme, the Calderón Administration appointed a Minister for the Reform of the State as one of its first acts and has been engaged in intense dialogue with USAID on this issue since taking office. After a series of meetings and a deepening realization of the size of the fiscal deficit left by the outgoing administration, the GOCR presented to USAID on November 8, 1990 a plan of action to remove, as a first stage, 717 INCOFER employees and 1,905 DESAF (Family Allowance Program) employees.

To assist the GOCR in this effort, USAID jointly reprogrammed C606 million (about US$6.1 million) for INCOFER and DESAF from ESR IV and V local currency to carry out this program through the payment of severance obligations. Use of these funds is as follows: C591 million (US$5.91 million) was monetized before December 31, 1990 and the remaining C14.9 million (US$150,000) will be monetized during 1991.

In an HCOLC agreement signed with the GOCR on November 23, 1990, USAID agreed to assist the GOCR to carry out this first stage of the Labor Mobility Program. This agreement, signed by the Ministers of the Presidency, Finance, Planning, and Reform of the State, and the Executive President of the Central Bank, describes a number of principles, controls and covenants which are briefly summarized below.

a. The Program is being applied primarily to the institutions with labor-redundant functions, which run recurring-cost deficits and which therefore require the elimination of programs.

b. The elimination of positions in the institutions carrying out the Labor Mobility Program must contribute to the reduction of the fiscal deficit.

c. A Special Commission comprised of the Ministries of Labor, Presidency, Justice, National Planning, Finance and Reform of the State has been formed to prepare studies and analyses required for the formation of policies, structures, organization, laws, control systems and other considerations for the public institutions involved in the Labor Mobility Program. Proposals that the Special Commission submits will be approved by the Presidential Commission, which is composed of the Minister of the Presidency, the Minister of Finance and the Minister of the Reform of the State.

d. Finally, for this program, the GOCR has agreed to provide AID with reports of total employment in the entire public sector on a quarterly basis.

In addition to these stipulations, and underlining the seriousness and permanency of their intent, the GOCR has agreed, through a series of covenants, to eliminate positions vacated under this program, going so far as to eliminate the corresponding budget codes for those positions. Finally, the GOCR has pledged to make its best efforts to guarantee that positions eliminated in connection with this program result in equivalent reductions in total public sector employment levels.

The GOCR's compliance with ESR IX Covenants 5.3(D) and 5.3(E) during 1990 with the first stage of the Program and the reduction of positions from 12 Ministries and 13 autonomous institutions was excellent. Of special note were the accomplishments of a team lead by the Ministry of the Presidency and which included the Ministry of Planning, the Controller General's Office, the Ministry of Finance, the Executive Presidents of INCOFER and DESAF, and the Attorney General's Office. This group carried out its task under extremely adverse political conditions, difficult legal procedures and internal problems with the Ministry of the Reform of the State. These obstacles notwithstanding, DESAF dismissed 1,905 employees as a result of the closing down of the Family Allowance Program; INCOFER dismissed 717 and closed the San José-Siquirres railroad service. The total cost of this implementation was C591 million (US$5.9 million). For both institutions the estimated savings during FY1991 will be C791,000,000 (US$8 million), and for the total reduction implemented in FY1990 the savings for FY1991 will be C1,142,000,000 (US$11.4 million) (see Table No. 1). The GOCR is also in compliance with the Labor Mobility covenants in the November 23, 1990 HCOLC Agreement.

More recent actions regarding this theme include the announcement in mid-March that the Labor Mobility Program will be implemented by a special unit in the Ministry of the Presidency. The activities performed during the previous 10 months by the Ministry of Reform of the State had not been effective enough, and the Council of Government recommended an administrative reorganization. The GOCR eliminated this Ministry and appointed the Ministry of the Presidency as the implementing unit to carry out the reform, with the Labor Mobility Program as one of the components.

During the second week of March 1991 the Ministry of the Presidency presented the 1991 plan of action for the Labor Mobility Program and requested the Mission to support its second stage, which involves the removal of 3,595 employees from the public sector. This stage will have two components. The first consists of the closing of programs, to be applied primarily to institutions with labor redundant functions, which run recurrent-cost deficits and require the elimination of programs. For example, the GOCR will continue with 2,325 dismissals from other programs of DESAF, INCOP, INVU, RECOPE and from CNP, the government marketing and price control board (see Table No. 2). In the latter case, eliminating CNP retail operations will not only reduce the CNP deficit, but will also comply with part of the conditions precedent to disbursement of a US$40 million World Bank loan to the agricultural sector.

The second component is the release of employees from public institutions who voluntarily decide to resign from their jobs. The GOCR projects 1,270 resignations from 17 Ministries and 12 autonomous institutions with at a cost of C453 million (US$4.53 million), generating an estimated savings of C702 million (US$7 million) (see Table No. 3).

The plan implemented during 1990 will generate estimated savings of C1,142 million (US$11.42 million) during 1991. The plan proposed by the Presidential Commission for 1991 will generate estimated savings of C3,242 million (US$32.42 million) during 1992. The total amount of estimated savings will be C4,384 million (US$43.84 million). The total cost to dismiss 6,851 employees has been estimated at C2,558 million, financed with C1,200 million HCOLC already programmed and the rest financed from the National Budget (see Table No. 4).

To support the second stage of the Labor Mobility Program during FY 1991, the Mission signed an agreement with the GOCR on March 14, 1991. The focus and covenants are the same as in the November 23, 1990 Agreement. The 1991 Agreement calls for C1,200 million to be monetized quarterly during 1991. The programming is as follows: C838.4 million (US$8.38 million) from ESR II to VIII was programmed on March 11, 1991, and the remaining C361.5 million (US$3.61 million) will be programmed soon, subject to the availability of local currency funds generated by ESR IX during 1991, under an amendment to the Local Currency Programming Agreement signed on November 9, 1990.

From its experience in implementing the first stage, the GOCR decided to create a foundation as a means to reduce the time between an employee's resignation or dismissal and his/her receipt of severance pay. Under normal conditions, it takes almost six months to disburse the check to an employee after separation, reflecting a very complex legal process that involves four institutions with 12 departments. The funds for severance pay for employees in non-autonomous institutions must be approved in the annual budget, resulting in extremely long delays. The process requires the signatures of eight individuals, including the President, for each employee dismissed. As a means of speeding up this process, the GOCR created the Foundation for State Cooperation. The objective of the Foundation is to expedite the Labor Mobility Program in accordance with State regulations, by paying the severance pay in less than a week, once the internal auditor of each institution certifies that the amount of severance pay is in accordance with state regulations. Additionally, the Foundation may assist or participate in the preparation and implementation of any other plans or programs to reform the State. The Foundation and the GOCR have signed an Interinstitutional Cooperation Agreement that defines in detail the procedures to establish coordination of and carry out the Labor Mobility Program.

The local currency used to support the 1991 Labor Mobility Program will be disbursed from the GOCR/AID Special Account in the BCCR to a MIDEPLAN account in the BCCR, and transferred to the Foundation account in a commercial state bank or to the Labor Mobility account used for the first stage of the Program. MIDEPLAN, through its Executive Directorate for Projects (DEP), will be the trustee for the Labor Mobility funds. The Presidential Commission will be responsible for establishing policies and general guidelines, and for approving the Labor Mobility projects.

B. Pensions

Costa Rica has three different pension systems:

1. The Special Pension Systems of the Public Sector

These systems cover public sector employees and are subsidized through the National Budget. Since employee contributions to pension funds are insufficient to fund these systems, approximately a third of the fiscal deficit can be attributed to the government's budgetary contributions to pension funds.

2. CCSS Pension System: "Invalidez, Vejez y Muerte" (IVM)

The IVM system covers private sector employees and some from the public sector. The Caja de Seguro Social (CCSS) has been relatively efficient in managing the pension fund, constituted by monthly salary contributions from the employer (4.75%), the employee (2.5%) and the State (0.25%). Because the system was using its reserves since May 1990, on November 22, 1990 the CCSS Board of Directors approved new regulations. The following changes were incorporated: the pension age was increased from 55 to 60 for women, and from 57 to 62 for men; the number of payments required for a pension, increased from 408 to 469 (women) and 474 (men); the amount of the highest monthly pension was increased from C65,000 to C90,000, but if the employee delays his retirement, he may receive 100% of his salary up to C120,000; the amount of the pension was diminished through a reduction of the percentage by which the increments are calculated: in the past, the system increased the pension by 0.125% of the monthly salary of 408 payments. Now the system will increase the pension by 0.0835% of the monthly salary beginning after payment number 240 (this means that there will not be increases during the first 20 working years). These measures were accepted and signed by the unions, the GOCR and CCSS and they have been in force since January 1, 1991. Nevertheless, the CCSS will have to increase in the future the amount of each employee's contribution, if the benefits are to be maintained as they are now.

The impact of these adjustments will result in savings for the system as follows: during 1990, the IVM system of CCSS spent $117M to pay 65,000 pensions, with a cost of $1,800 per person; for 1992, the system will spend $113M to pay 75,000 pensions, with a cost of $1,500 per pension. This reduction of $300 per person will be greater if the new system motivates the labor force to keep on working for more years in order to have a higher pension. The results of the adjustments will also have a long term positive impact. This effort made by the GOCR is the first step in a serious pension reform. The GOCR and CCSS took a very firm position in approving this reform, which reflects input from USAID-funded technical assistance and policy dialogue.

3. Complementary Private Pension System

This is a voluntary pension system developed by the private sector with USAID assistance. There are two private banks in the market with more than 6,000 associates whose savings total C400 million (US$4 million). This system is growing with no regulatory legislation to assure its soundness.

During the last two years, and as a result of conditionality in ESR VIII and ESR IX, the GOCR has agreed to define a course of action to improve and rationalize the Special Public Pension Systems, to support the new Caja de Seguro Social (CCSS) regulations, and to submit legislation to regulate the Complementary Private Pension System.

The objectives of the pension reform are to unify the public sector systems, to eliminate the incongruency of overentitled and underfunded public pension systems, to eliminate the pension-caused portion of the fiscal deficit, and to regulate the private sector initiative of the voluntary pension system.

Since 1989, and as a result of continued policy dialogue with the GOCR and conditionality under ESR VIII and IX 5.3(K), a number of initiatives have been taken in this area:

a. On March 1, 1990, the Mission signed a contract with a Costa Rican actuary to perform seven actuarial studies of the biggest public sector pension systems, in order to provide the Ministry of Finance and the Legislative Assembly with technical reports that will establish different options and recommendations to carry out an actuarially sound Pension Reform. These studies will be ready by the end of April 1991.

b. In February 1990, the Arias Administration appointed a Technical Pension Commission, comprised of representatives from the CCSS and the Ministries of Planning and Finance. The Commission developed a legislative bill to integrate the special pension systems into the CCSS IVM system and approved the Complementary Private Pension System Legislative Bill. Both documents were presented to the High-Level Pension Commission formed by the Executive Presidents of the CCSS and the Central Bank, the Ministers of Planning and Finance, and a representative from the Ministry of the Presidency. Some momentum on this initiative was lost in the government transition in 1990, although it is now abundantly clear that the Calderon Administration is committed to moving forward with these measures.

c. The new Government followed basically the same strategy and appointed by Executive Decree on June 1990, a new Technical Commission with the same institutions, and the Ministries of Labor and Justice. This new Commission approved the Complementary Private Pension System Legislative Bill and presented it to the Second Vice President's Office in early November; the legislation was submitted to the Legislative Assembly in late April and is now being studied by the Social Commission.

d. Under the leadership of the Vice-Minister of Finance, and an expert contracted by USAID to perform actuarial studies, six Executive Decrees related to pension reform have been developed in the last month, for submission and signing by the President. These decrees are being analyzed by the Attorney General's Office. Their objective is to improve regulations of the Special Pension Systems of the Public Sector while the bills are presented, discussed and approved in the Legislative Assembly.

e. On November 22, 1990 the CCSS Board of Directors approved the new regulations of the IVM system, raising retirement ages and implementing the other reforms described above.

f. The Presidency submitted to the Legislative Assembly for discussion and approval, two bills to improve and unify the public pension systems: the "Teacher's Pension System" and the "Creation of the General Pension System charged to the National Budget."

In addition to our ongoing policy dialogue on these issues, USAID has provided political and technical assistance through three consultancies (08/89, 03/90 and 05/90) by Dr. Francisco Bayo, Deputy Chief of Actuaries from the U.S. Social Security Administration. These visits are in direct response to requests from the Minister of Finance, the CCSS Executive President, and the Minister of Labor.

Dr. Bayo has provided timely and forthright advice to the GOCR and AID in the implementation of a strategy for Costa Rica's pension reform. Indeed, the measures taken in late November are essentially only slightly revised policy actions stemming from suggestions Dr. Bayo has consistently been making to the GOCR. The Mission has been informed that the Legislative Assembly will request our assistance to finance another visit of Dr. Bayo to give a seminar to the members of the Assembly explaining the implications of the fiscal problem and the adjustments that need to be made for the Pension Reform.

Interestingly, the Mission has been invited to participate as a member of the Technical Pension Commission and in discussions with the Ministry of Finance, the Ministry of the Presidency, and the Legislative Assembly on both the Special Pension Systems of the Public Sector and the Complementary Private Sector System. So far one of USAID's major contributions has been in the development, design and adjustment of the Complementary Private Pension System legislative bill, relying on inputs from Dr. Bayo and the World Bank and policy dialogue with the "Casa Presidencial" and the Legislative Assembly. In fact, the recent bills submitted by the Presidency to unify the public pension systems and to regulate the private pension systems were submitted to AID for analysis and review.

The changes proposed in the two bills to improve the Teacher's Pension System and to unify the rest of the public sector systems will slighty reduce the fiscal deficit in the short term, mainly because the pension age has been increased, the contributions will be regularly deducted from the salaries, the amount of the pensions will have a limit, and the formula to calculate the pension has been improved. The economic impact of these improvements can not be measured now because the bills might be changed during the discussions in the Financial and Social Commissions and during the last discussions for approval by the Legislative Assembly. Nevertheless, the bills do not create a separate pension fund that will be invested, the pensions will be paid out of the National Budget, the increase of the pension age is not the same as for the CCSS pension system, and the administration and control systems are not well defined and developed. The Mission believes that with policy dialogue, the missing components in the bills may be worked out before the law is approved.

The bills already submitted to the Legislative Assembly are under study by the Finance and Social Commissions. The strategy being developed by the deputy chiefs of the two major political parties (PUSC and PLN) is to obtain input from different interest groups during April, analyze the actuarial studies which will be finished by then, incorporate the changes that will improve the two bills and submit them for discussion and approval by the end of May. Dr. Bayo's visit will precede the discussions of both bills.

To reinforce the understanding of the problem and the actions that should be taken by the GOCR in reference to the pension reform, USAID/Costa Rica financed a trip to Chile on April 13 to 21, 1991 by the Deputy Chiefs of the two major political parties, the Minister of Labor, a member from the Board of Directors of CCSS, a member of the National Stock Market Commission and a USAID representative. The objectives of the visit were to attend a meeting on the "Analysis of the Private Pension System in Chile"; to analyze the pension system as part of the overall economy; to discuss with the GOC and private sector institutions privatization experiences of medical services and pension systems; to analyze the Chilean experience with SAL implementation; and finally, to allow this important group to consolidate their ideas for the implementation of the Pension Reform.

Movement in the area of pensions is particularly gratifying, given the many political issues involved in this policy area. The GOCR is obviously willing to adopt serious measures to reduce the fiscal deficit, working in a very difficult environment with the unions and the different pressure groups against unpopular but necessary changes.

C. Laudos Arbitrales

Laudos, or labor judgments, were conspicuous by their numbers just before the end of the Arias administration. These judgments have resulted in the payment of large sums by the GOCR to various unions of public sector institutions, and have traditionally benefitted Costa Rican workers at the expense of the GOCR. This has, of course, represented a major fiscal drain on the government. A more damaging characteristic of these judgments, however, is the fact that they can be reassessed or readjusted every two years. Reform of this process can only be made through legislative action.

Recognizing the economically damaging effect this legal requirement has on the fiscal deficit, the Calderon Administration, in November 1990, submitted legislation that will diminish the frequency with which labor judgments are now used and rationalized, and would subject their continued use to economic criteria. The legislation is now being reviewed.

D. Public Sector Prices

1. Refinadora Costarricense de Petroleo (RECOPE)

RECOPE is a publicly-owned refining facility. As stipulated in Covenant IX 5.3 (I) of ESR IX, the GOCR pledges to "advocate by adequate means a system for the automatic and periodic adjustment of public utility and fuel prices on the basis of objective criteria (international prices, etc.)." Automatic adjustments were implemented for fuels, taking into account international prices and the exchange rate, through a decree enacted on August 20, 1990. The decree establishes a mechanism whereby RECOPE automatically will ask SNE (National Electricity Service) for the full amount of price increases for finished products whenever the price of crude, denominated in colones, increases by five percent or more.

2. Consejo Nacional de Produccion (CNP)

Covenant ESR IX 5.3 (O) asks the GOCR to "continue to reduce the role of the CNP in the commercialization of basic grains, eliminate the state monopoly in the importation of such grains, and establish equal treatment of both public and private sectors." As a part of this covenant, the GOCR agreed to eliminate yellow corn import licenses by December 30, 1990.

The CNP's law establishes it as the institution empowered to give permits (not licenses) to public or private entities to import basic grains. The CNP undertook administrative preparations to comply with the proposed change, helped along by conditionality in the FY90 PL-480 agreement. In November 1990, the Ministry of Agriculture, which oversees the CNP, eliminated import permits on yellow corn, demonstrating once again the Calderon Administration's willingness to take potentially unpopular stances in order to achieve long-term economic stability.

E. Customs

USAID/Costa Rica has been interested in the area of Customs Reform over the years, as the operations of the Customs Service directly affect the promotion of exports and trade liberalization in general. Various surveys among private sector commercial and industrial firms have identified Customs services as being deficient, and expensive in terms of time and opportunities lost.

Part of the improvement in the investment climate in Costa Rica is linked to public sector services, regulations and controls. The Customs Services is a prime target for improvement, as Customs performs the role of gatekeeper for most public sector entities involved in import and export operations. The GOCR has focused on the Customs Service as a crucial area in need of reform, and has placed it as a priority in the National Development Plan.

During 1990 the Mission contracted a local consultant group, which completed a series of operational manuals that now lay the basis for standardizing procedures in all of the Customs Houses according to existing legislation. They also take into consideration the changes implied by the entry of Costa Rica into the GATT, and the Kyoto Agreement for harmonized classification. These manuals are presently undergoing review by systems analysts to enable the Customs Service to automate most of its procedures. The software design finished in early 1990 has served as a basic framework, and the detailed software development continues based on these newly completed manuals.

During 1991 and 1992, through the use of HCOLC, the technical assistance will be reinforced, especially in computer systems analysis and applications. The technical group will emphasize training for mid- and low-level Customs officials in the established procedures, and the new personnel who entered in key supervisory positions in Customs houses in March 1991 will receive continuous technical support to reduce conflict and frustrations as they confront the modernization process and the resistance that is expected from rank-and-file Customs officials.

The Central Customs House is expected to occupy by mid-1991 part of the physical facilities of CENADA, the Agricultural Marketing Center, near the International Airport. It will continue to process the paperwork for about 80% of the international cargo and eventually will be able to provide 24-hour service for receipt of container traffic from the ports and borders. The computerized system will begin at this Customs House, probably in late 1991, then will expand to include the ports and eventually all of the peripheral Customs Houses. In addition to the Customs function, there will be physical facilities for offices from other Ministries that intervene in the import and export process, the laboratory, and the banks.

There will be a major push for construction and remodelling of Customs houses, as the present facilities are inadequate. Financing for this will be in part from GOCR domestic resources, and in part from HCOLC.

The Customs Service has been undergoing scrutiny by a Legislative Commission since late 1990, and the modernization process is being carried out in concert with a User's Committee, composed of public and private sector representatives, and an internal Reorganization Committee, and has a political urgency shared by the present government and the opposition.

Aspects of corruption are being broached in various ways: first, through a clear definition of functions and limitations; second, through an improved physical environment, and a separation of the officials from the pressure of the public; and third, through a supervision/inspection system that will provide spot checks on all personnel, but especially those with the most sensitive positions. Eventually, the mechanization of many of the operations will reduce the human and induced errors in classification, valuation and calculations.

Controls on domestic and international container transport will be tightened as additional support systems come into play, with improved container yard facilities, weigh stations in key places on the main highways, and computer, radio or fax communications between Customs houses to mark the departure and arrival of the containers.

Facilitation of export operations comes into play with the improved rapid dispatch of raw materials, special treatment for drawback industries, and removal of restrictions on the receipt of samples. These measures are not uniformly carried out. A reduction in the time required to carry out clearance of documentation will translate into savings for importers and exporters, as temporary warehousing charges will be reduced, along with lost time for essential goods required for production.

There is a conscious effort at the political level to reduce restrictions and distortions placed upon the export trade. Those policies are not readily translated into actions within Customs, due to the mediocre caliber of the personnel at the level of the Customs houses, where the actions take place. The efforts being made by the Ministry of Finance to upgrade personnel and to open a separate chapter within the Civil Service Code are important measures, along with a clearer mandate for sanctions for malfeasance and awards for outstanding performance.

Additional interference that impinges on the export trade is the influence of the Rural Guard, which has an unclear mandate for stopping contraband. There have been many cases of unnecessary seizure and search of containers en route to container yards or production plants. The multi-institutional mechanism for control of contraband and fiscal fraud tends to be inefficient and ineffective. As Customs controls become strengthened by means of improved communications and container yards, the role of the non-technical and merely repressive police entities can be minimized.

External technical assistance provided by the IDB for 1991-92 includes a review of the General Directorate of Customs for restructuring of the top management, drafting of legislation, a review of the Special Regimes (drawback, Industrial Free Zones, Commercial Free Zones), and general assistance in administration and training efforts.

IV. Major Economic Issues

A. Macroeconomic Stability

Trade liberalization can not succeed without a stable macroeconomic environment. Therefore, adherence to a coherent macroeconomic program will be a condition to the Trade and Investment Program. A new element to be supported in the macroeconomic policy environment will be strengthening of the Central Bank's financial and administrative independence, which would help to guarantee long-term financial stability.

An improved economic policy environment and high levels of foreign assistance have resulted in a reasonably high rate of economic growth after the crisis of the early 1980s. The size of the public sector has experienced a relative contraction since then. But it is still large, its level of efficiency is low, and the rapid rate of growth of a number of expenditure items will continue to result in periodic fiscal imbalances unless structural measures are undertaken. Given the high tax burden, further increases in taxes are not advisable. Over the long run, some reforms in the structure of taxes could improve economic efficiency, but this is not currently a high-priority concern.

While Costa Rica reduced inflation after the crisis of the early 1980s, present levels are significantly higher than historic levels, and this has a negative effect on private sector savings and investment. The lack of autonomy of the Central Bank and the existence of state-owned banks have facilitated the monetization of the public sector deficit, with sharp reductions in reserves and rapid inflation. Central Bank losses, though declining, still amounted to 2.0% of GDP in 1990 and are estimated at 1.8% of GDP in 1991. (The origins of these losses were described in Part II.B.3 above.)

B. Trade Liberalization

Costa Rica's medium- and long-term growth prospects will continue to be restricted by its debt-service burden (even after the buyback and anticipated further rescheduling); the loss for the forseeable future of its access to capital from foreign commercial banks; limits on potential official capital inflows; and modest prospects for the growth of traditional exports. This means that the future of Costa Rica's economy will depend primarily on the country's ability to expand and diversify its non-traditional exports. This will require continued improvements in the climate for trade and investment.

Costa Rica began the process of trade liberalization in Central America, but now other countries are moving at a faster pace to reduce effective protection. To remain competitive in the region, Costa Rica will have to lower the maximum tariff rate, reduce tariff dispersion, and eliminate most exonerations for firms producing for the local market. A large proportion of imports does not pay duties. Although exonerations for exporters make economic sense, as they reduce the anti-export bias, exonerations for domestic producers increase effective protection and thus contribute to a misallocation of resources. Additionally, a reduction of exonerations would compensate for the revenue losses that may result from tariff reductions, at least in the short run.

The GOCR is discussing the possibility of a program designed to assist firms that lose tariff protection to increase their competitiveness. Some of the early ideas in this area would create public sector programs and new subsidies. AID has counseled, with success, that the option of using CODESA for such a program be avoided, and that attention be concentrated instead on measures that guide the industrial reconversion program away from inefficient and directed state policies to those that promote production and management efficiencies.

Trade liberalization requires rapid reallocation of resources, and this would be more difficult given pervasive price controls, including efforts to regulate marketing margins for a large number of goods.

C. Improved Investment Climate

Although private investment as a percentage of GDP has regained its pre-crisis levels, the upward trend of the mid-1980s levelled off several years ago. Some of the obstacles to a resumption of the upward trend are clear, but a thorough analysis of the investment climate is needed to clearly identify others.

A Bilateral Investment Treaty (BIT) with the United States would help increase private investment. Although negotiations have been advancing, it is expected that signing would be accelerated if a BIT were included as part of the Trade and Investment Program. AID is cooperating fully with a thorough assessment of the investment climate in Costa Rica to provide an input to a potential investment sector loan from the Inter-American Development Bank.

D. Public Sector Efficiency

The government is implementing measures to reduce the overstaffed bureaucracy; carry out additional privatizations; reform the various pension systems; improve public sector wage-setting mechanisms through legislation to regulate the "laudos"; and implement a variety of budget reforms. This is a continuous and multi-year effort that will require reinforcement by AID and the international financial institutions. Thus, the public sector efficiency issues with which AID has been concerned, in this and previous ESR programs, may also be addressed under the World Bank SAL III program which is being developed in close collaboration with USAID/Costa Rica, as well as the IDB investment promotion program and the IMF agreement.

V. Program Objectives and Rationale

A. Program Objectives

In 1984, Costa Rica began to implement an economic adjustment program designed to liberalize the economy, giving primary emphasis to the promotion of non-traditional exports, and placing greater reliance on the private sector and on market forces. As part of the trade liberalization process, the maximum nominal tariff rate was lowered to 40% for all imports except for shoes and textiles (and these will be lowered to 40% by 1992), and for some non-competing imports such as automobiles, which fall under a different tariff regime. While this reduction in tariffs was the most significant in Central America at the time of its implementation, the other Central American countries now have more ambitious tariff-reduction programs.

There is a need to deepen the trade liberalization process in Costa Rica through further reductions in the maximum tariff and through a reduction of tariff dispersion. Further tariff reductions, however, are being vehemently opposed by well-organized and well-funded interest groups with strong allies in the Calderon Administration, as well as in the opposition Liberacion Party. The central objective of the Trade and Investment Program is to support a program of staged major reductions of nominal and effective rates of protection. A maximum nominal tariff of 20% or less is the target. The reduction of tariffs is likely to have an initial negative effect on fiscal revenue. Therefore, an elimination of most exonerations (exonerations to exporters would be maintained) is desirable to minimize the negative fiscal effect. This would increase the transparency of public finances and reduce effective protection, as a significant proportion of exonerations on import duties is given to producers for the domestic market. A permanent increase in the tariff floor to 10% may also be part of the program. This would likewise have a positive fiscal effect and contribute to the reduction of effective protection.

AID financed technical assistance to the Ministry of Foreign Trade to help draft a plan for trade liberalization. The plan includes measures directly related to trade liberalization, measures designed to increase the domestic efficiency, and measures designed to increase macroeconomic stability. It has been adopted by the Ministry of Foreign Trade as its new plan of action.

Costa Rica has relied on foreign savings in the form of grants and loans to finance a major share of domestic investment. At this time, Costa Rica does not have access to commercial bank lending, and USG assistance is declining rapidly. While the Multilateral Development Banks (MDBs) will continue their lending programs, net resource transfers from the MDBs will be less important and in some years may be negative. Therefore, Costa Rica needs both to increase its national savings and to supplement these savings with increased direct investment from abroad. An improvement in the investment climate would increase domestic investment and foreign direct investment, and is a second objective of the Trade and Investment Program.

Tariff reductions and a Bilateral Investment Treaty would move Costa Rica in the direction of a Free Trade Agreement with the United States, the ultimate goal of the Trade and Investment Program.

B. Program Rationale

The program has been designed to accelerate the processes of trade liberalization and the strengthening of the savings and investment climate. It has been coordinated closely with the IMF, the World Bank and the Inter-American Development Bank (IDB). The program advances and deepens some important actions initiated under previous ESF agreements, but more importantly it initiates a second round of trade liberalization and of improvements in the investment climate which are expected to serve as catalysts for major resource flows from the World Bank and IDB. These foreign exchange inflows will support structural reform measures that will enable Costa Rica to benefit from all three components of the Enterprise for the Americas Initiative (EAI) -- trade, investment, and debt reduction.

AID support is expected to facilitate the structural reform process significantly, by continuing to cultivate and maintain the dialogue on the importance and necessity of trade liberalization and an improved climate for savings and investment. The AID program will also facilitate the strengthening of the macroeconomic policy framework -- essential for the success of a trade liberalization/investment strategy -- not only by supporting the government's stabilization program but also by highlighting a new area for reform, the increased financial and administrative independence of the Central Bank. In addition, AID will promote more efficient resource allocation in the economy as a whole by focusing attention on the need to remove some significant price controls and by encouraging a rational, market-oriented process of industrial reconversion.

VI. The Proposed Program

A. Economic Policy Measures

In support of the Enterprise for the Americas Initiative, and in an effort to target our significantly reduced ESF levels on a narrower range of issues, the Trade and Investment Program purposefully is more focused than past ESF programs, and has been designed to promote a significant deepening of trade liberalization policies implemented in Costa Rica during the past six years. The agenda set out below is compatible with and supportive of IMF, IBRD and IDB actions scheduled for implementation over the next several years. AID's role is to accelerate this process, set the stage for GOCR decision-making in key areas, and deepen the ongoing public sector reform program which fosters greater private sector investment and activity.

Previous ESR programs have included covenants which remain in force, but which have called for GOCR action after the fact of disbursement. We propose to shift to the use of Conditions Precedent as a means of encouraging earlier GOCR decisions on a range of actions necessary to advance the agenda and timetable of their negotiations with the IBRD and IDB. Thus, many of the CPs reflect policy and program actions which have been the subject of AID/GOCR policy dialogue and/or concrete steps taken under our initiative or financing.

The policy measures listed below have been vetted fully with the GOCR economic team and are the result of close cooperation at several levels between AID and the GOCR. Several of the steps proposed represent important new areas of AID policy dialogue, and subsequently the first steps in highly controversial areas where the GOCR has been reluctant to either take a public stance (e.g., further tariff reduction, elimination of tariff exonerations) or has not undertaken any significant action to date (e.g., Central Bank independence). Some represent steps for which it was difficult to gain consensus and concrete GOCR actions, and which in themselves were critical to further progress in trade liberalization negotiations (e.g., formally begin negotiations on a SAL III, initiate an IDB investment climate study as a prelude to an investment sector loan -- and EAI eligibility, and initiate a US/CR Bilateral Investment Treaty negotiation). Other represent steps to deepen ongoing efforts to either reform or reduce the size and role of the state in the economy (e.g., close CODESA as an institution and divest its assets under a plan to complete the privatization process, maintain the pace of labor mobility separations of government employees, and implement the pension and budget reforms necessary to control public expenditures).

In accordance with agreements reached during review of the Concept Paper, no legislative actions, <u>per se</u>, are required as conditions precedent. Instead, the actions represent the culmination of a policy dialogue process begun in the early months of the Calderon administration and, in some cases, steps already taken (or about to be taken) as the result of close and continuous AID/GOCR interactions and cooperation in this period. The Embassy has played a strong role in this process and has been involved in all deliberations.

Within this framework, the PAAD proposes the policy actions listed in Exhibit 1.

GOAL / OBJECTIVE	CONDITIONS PRECEDENT TO DISBURSEMENT
GOAL A. Macroeconomic Stability **OBJECTIVE** To comply with the goals of the stabilization program.	Evidence of substantial compliance with the objectives of the International Monetary Fund's Program.
To take measures to increase the Central Bank's autonomy.	The submission of a plan acceptable to A.I.D. and the implementation of measures that do not require legislation. The BCCR Board of Directors will formally adopt a policy to discontinue actions that have contributed to the present condition of the Bank.. The Bank will commit itself to: (a) not subsidize foreign exchange operations; (b) not assume the exchange rate risk related to long-term credit transactions; (c) not finance the Government nor other public sector institutions, either directly nor through state banks, except through the purchase of Treasury Bills; and (d) not to participate in international clearing payment systems (except within the existing program with the Central America Clearing System Chamber) that involve the accumulation of credits to other countries.
GOAL B. To Deepen the Liberalization of Foreign Trade **OBJECTIVE** To reduce effective protection and to take other mreasures to increase the efficiency of the economy to be able to fully compete in the international market.	To submit a plan to liberalize foreign trade that includes a schedule for tariff changes which demonstrates the Government's determination to arrive, based on an agreement of the Central American countries on the subject, at a maximum tariff of 20% as a general rule and a minimum tariff of 5% to 10% by 1992; and a maximum tariff of 20% for all products by 1994.

To initiate negotiations with the World Bank for a SAL III.	Submit evidence that the negotiations have begun
To eliminate most exonerations, except those related to production for foreign markets and tourism.	Initiation of a study to rationalize exonerations which will lead to a scheduled implementation plan.

GOAL

C. Increase Foreign and Domestic Investment

OBJECTIVES

Conclude a bilateral investment agreement with the United States.	Initiate negotiations.
To improve the environment for domestic and foreign investments.	Request the IDB to carry out an analysis of the investment climate.

GOAL

D. Increase Public Sector Efficiency

OBJECTIVE

Reduce present spending.	Reduction of public employment by 4,000 and a demonstration that the reduction target of 7,000 positions will be accomplished by the end of 1991.
Privatization of CODESA's enterprises.	Submit legislation to the Legislative Assembly that will allow the sale of 100% of CODESA's shares to the private sector; submit evidence that CODESA will be closed down by June 30, 1991; and submit to A.I.D. a privatization plan that will include legal, regulatory and administrative measures that will be taken to complete CODESA's privatization, including different alternatives to finance the privatization of FERTICA and CEMPASA.

Reduce public spending on pensions	Submission to the Legislative Assembly of a law that regulates public pensions.
Reduce public spending on pensions	Submission to the Legislative Assembly of a law on a complementary pension system.
Reduce public spending on pensions	Submission to AID of an action plan to improve the control and administration of the special pension systems of the public sector and control the complementary pension system of the private sector.
Reduce public spending on wages and salaries	Submission to the Legislative Assembly of a law to regulate labor judgements (LAUDOS).

B. Timing of Disbursements

As discussed in Section II.C, Costa Rica faces a critical balance of payments situation, and it is unlikely that there will be major disbursements of official capital (World Bank and Japanese Government) before the end of the fourth quarter of CY 1991. Given the difficult reserve position, the new requirements for earthquake reconstruction, and the monetary effect of paying severance payments to public sector employees in the first quarter of CY 1991, the positive effect of the USG assistance would be much greater if it were disbursed early in CY 1991, both to support economic growth and to underwrite continued marketplace and investor confidence. Therefore, the Mission is proposing a single disbursement of US$24 million no later than June 15, 1991, subject to compliance with the Conditions Precedent (CPs).

C. Uses of Dollars and Local Currency

1. General Background and Use of Dollars

During the period 1982-1990, ESF resources administered by the Mission played a decisive role in Costa Rica's progress toward stabilization and recovery, enabling Costa Rica to meet more of the real import requirements of sustaining higher growth rates than would otherwise have been attainable. Equally important, they were disbursed against appropriate benchmarks in the implementation of economic reform programs that have been sufficiently credible to merit broad support from the International Monetary Fund and World Bank, among others. The Mission signed nine annual ESR Agreements with Costa Rica for a total of $936 million, all of which has been disbursed except for $10 million of ESR VIII which is contingent on satisfactory resolution of outstanding U.S. property expropriation cases. These balance of payments loans and grants provided critical foreign exchange for the GOCR and Costa Rica's private productive sector.

ASSISTANCE UNDER ESR I-IX ($000)

	FY	Loan	Grant	Total
ESR I	1982	15,000	5,000	20,000
ESR II	1983	118,000	37,735	155,735
ESR III	1984	35,000		
			95,000	130,000
ESR IV	1985		20,000	
			140,000	160,000
ESR V	1986		120,582	120,582
ESR VI	1987		119,750	119,750
ESR VII	1988		85,000	85,000
ESR VIII	1989		85,000	85,000
ESR IX	1990		60,000	60,000
TOTAL		$168,000	$768,067	$936,067

Through the ESF programs, A.I.D., in conjunction with other international donors, has supported major adjustment efforts involving macroeconomic and structural reforms essential to achieving sustainable long-term growth. Past reforms have included a major reduction in the number of GOCR agencies; substantial liberalization of the financial system, including a unified, market-based exchange rate; maintenance of positive real deposit and lending interest rates; substantial reduction in past public sector deficits; passage of a monetary reform law which improved the competitive position of private banks in a state bank-dominated system; and privatization and/or liquidation of state-owned enterprises. As detailed in other sections of this document, policy conditionality for FY 1991 and subsequent years will focus principally on improving the policy, regulatory and market conditions for export-led growth based on free trade and investment.

Subject to Bureau concurrence, The Mission's intention is to use FY 1991 ESF dollars ($24 million to be disbursed in a single tranche) to reimburse the Central Bank for eligible private sector imports, utilizing disbursement, reimbursement and audit procedures spelled out in detail in the section following this one, i.e. VI.C, Implementation Procedures.

2. Local Currency

a. Background

Historical background covering rationale and allocations for HCOLC programming in Costa Rica over the 1980s has been reviewed in considerable detail in the last few years' ESF PAAD submissions and other documents. As the ESF levels decline from the highs of the 1980s, correspondingly less HCOLC associated with ESF balance of payments grants has been available for joint programming. In this context, the Mission has in recent years reduced the range of uses of available HCOLC. Many HCOLC-funded activities begun in prior years have been or are being brought to closure, and some other previously programmed uses, particularly GOCR sector uses, are being trimmed back or eliminated to free up increasingly scarce HCOLC for GOCR-declared higher priority uses, e.g. labor mobility and deficit reduction.

Briefly summing up the HCOLC numbers associated with ESF programs, from FY 1982 through FY 1990 a little more than C54.3 billion of HCOLC have been made available by the GOCR against $716.8 million in dollar grants. Of this C54.3 billion, a little over C48 billion have been committed and C44.4 billion disbursed. The HCOLC pipeline (committed but undisbursed) stands at just under C3.7 billion (roughly $37 million equivalent at present exchange rates). Slightly less than C6.3 billion remain to be committed ($10 million equivalent from ESR VIII and the balance from ESR IX). Another C7-8 billion is anticipated from planned ESR balance of payments grants (figured at about $60 million) over the period FY 1991-FY 1993, bringing the remaining theoretically programmable total to some C14-15 billion.

However, actual HCOLC outlays from the Special Account against the annual program agreements continue to be strictly controlled by annual monetization limits set by the Central Bank each year and are closely dependent on projected ESF dollar inflows. For FY 1991, monetization against the ESF Special Account for HCOLC has been set at C4.2 billion, somwehat above expected ESF dollar inflows of $24 million with this year's agreement and the possible $10 million held over from ESR VIII. With sharply declining dollar balance of payments levels, careful consideration must be given to the negative impact on overall monetary policy of monetizing more HCOLC than the ESF balance of payments dollar flows in that same year. We expect that the FY 1992 and 1993 monetization limits will have to be lowered accordingly. Such efforts are also an important part of the GOCR's efforts to correct the serious fiscal deficit and to stay in conformity with related provisions of the IMF stand-by agreement approved in April 1991.

A major new use of HCOLC began in late CY 1990, i.e. for severance payments aimed at permanent reductions in the levels of public sector employment. This program seeks to reduce public sector expenditures by reducing the total number of public sector personnel by 7,200 in the closing months of 1990 and the first six months of 1991. Mission support to this program was already contemplated in the ESR IX HCOLC uses agreement, but at lower levels. In order to make adequate funds available for this activity, the Mission committed roughly $18 million equivalent in HCOLC, as follows: C600 million from the CY 1990 monetization limit and C1.2 billion from the CY 1991 monetization limit. To achieve this for 1990, C606 million were reprogrammed out of previously agreed sector uses and reallocated to the labor mobility program. The C1.2 billion is in the 1991 monetization agreement.

b. HCOLC Monetization and Use Plans

Overall. The Mission intends that the full amount of HCOLC associated with the $24 million balance of payments support use will be deposited in the Special Account, but also intends that its eventual use will be programmed in a way that either does not result in monetization. As presently envisoned, this practice will also be followed for subsequent years' programs with only such exceptions as prove unavoidable.

Ongoing HCOLC requirements under existing agreements which are not otherwise renegotiated will be met from funds already in the Special Account or still to be deposited from prior years' (principally 1989 and 1990) agreements, and only to the extent that the total of such uses falls within the annual monetization agreements with the Central Bank. In general, this means no new allocations from this agreement for Mission Operating Expense and Program Support Trust Funds and no new project-like activities. HCOLC funding for currently-approved GOCR sector programs will continue to be reduced toward the objectives of freeing up funds for higher priority activities (labor mobility, deficit financing and Central Bank autonomy and reduction of losses) and of moving prior sector-program funding into the regular GOCR budget process as quickly as feasible.

Projected monetization uses of all other presently available and future HCOLC generations will be used to reduce the deficit of the Central Bank, thus strengthening its financial position. With respect to the Mission's intentions to try to reach agreement with the Central Bank on autonomy, we are driven by a desire to achieve an important development impact leveraging HCOLC balances that cannot otherwise be logically monetized.

The Mission has prepared detailed data analysis and projection sheets for all existing and projected HCOLC generations and a wide range of options for use following the general principles outlined above. This information base will continue to be maintained, refined and final uses negotiated with the GOCR on an annual basis through the annual monetization agreements and any subsequent amendments.

D. Implementation Procedures

1. Disbursement Procedures

USAID will authorize the release of dollars from the separate account to the general accounts of the GOCR as reimbursement for the purchase of eligible imports, after presentation to AID of evidence that such purchases have taken place.

In conformance with a requirement in the 1987 Continuing Resolution, the GOCR was required to open a separate account for dollar disbursements to be deposited under the ESF program. The Mission has continued to impose this requirement on the GOCR. In carrying out the directives for the separate account, USAID has as its objectives that:

a) cash transfer dollars not be commingled with other GOCR/BCCR funds;

b) cash transfer dollars be used to reimburse the GOCR for discretely identifiable eligible imports from the United States, already financed with GOCR resources;

c) the cash transfer nature of the program not be altered; and

d) the mechanism be flexible enough to permit changes based on experience and developments which may affect its efficiency.

In collaboration with the Central Bank, USAID/Costa Rica developed the following procedures for disbursement to the Separate Account:

In accordance with agreements signed with the GOCR, dollars are disbursed, in the form of a cash transfer, through an electronic funds transfer (EFT) effected by the U.S. Treasury to a separate account established for this purpose in the Federal Reserve Bank (FRB), which has provided assurances that the sub-account established to receive these funds will preclude commingling of Cash Transfer dollar funds with other resources. The account will include and will be credited for any interest earned from funds held in this account and any GOCR refunds for unacceptable disbursements from the account.

The BCCR will submit confirmation that the separate sub-account has been established, and the Mission will certify that this account is a separate, non-commingled sub-account, established solely to receive Cash Transfer dollar funds.

The separate account is monitored closely by the Mission. The BCCR is instructed to request the depository bank to advise AID of any movement in the account, including interest earned, via telex, fax or letter as the circumstances may dictate. Cable traffic between the depositary bank and the BCCR is also provided to AID.

In addition, copies of the bank statements from the depository bank for the separate account are obtained, directly from the depository bank, at least once a month, as long as the ESR agreement is not fully disbursed or there are funds remaining in the account. After each cash transfer has been fully released from the separate account, a copy of a statement for the separate account is requested from the depository bank. The statement following release of the last cash transfer should clearly show that there are no remaining funds in the account.

The Mission has worked with the BCCR extensively, and is entirely confident of the BCCR's capability to manage the separate account. Therefore, for the purposes of this program, no additional financial assessment will be performed.

2. Reimbursement Procedures

In the case of reimbursement to the GOCR for essential imports, the following shall be considered eligible imports: raw materials, intermediate goods, spare parts, and capital goods from the United States. The following list of ineligible items cannot be imported with financing from Cash Transfer dollar funds.

PL-480 commodities (wheat and corn)	Fine furs
Explosives and ammunition	Passenger cars
Firearms/military equipment	Police equipment
Weather modification equipment	Alcoholic beverages
Surveillance equipment	Jewelry
Gold, silver, and coins/stamps	Pesticides
Non-durable consumer goods	Abortion equipment

The Central Bank (BCCR) approves the payment of foreign exchange from existing reserves for imports into Costa Rica. Reimbursement for eligible import transactions financed with the GOCR's foreign exchange reserves will be made from the separate account.

The computerized system for approval of imports by the BCCR uses the NAUCA II code system to produce, for a date range, two listings: a NAUCA II listing for eligible products and a second NAUCA II listing for ineligible products. Before each disbursement, both listings are received and reviewed by the Mission in accordance with the acceptance criteria for eligible import transactions previously approved by USAID. The listings are also periodically updated by the Mission and the BCCR, according to modifications of the "Central American Tariff of Imports" made by Costa Rican law. The Mission has reviewed and determined that the BCCR's system for approving foreign exchange and maintaining documentation supporting the listing provided is reliable and is expected to continue to be reliable assuming compliance with established procedures. The BCCR will retain supporting documentation for a period of three years, and it will be available to AID, or its representative, for the purpose of periodic audits.

In order to obtain reimbursement for the payment from existing GOCR foreign reserves for eligible imports into Costa Rica, the BCCR presents the Mission with the private sector import transaction listing from the United States, which is generated by the NAUCA II listings, totalling at least 110% of the dollar funds for which disbursement (release) is being requested from the separate account.

Upon receipt of the import-transaction listing from the BCCR, the Mission will satisfy itself tht the listing contains eligible transactions equal to the proposed Cash Transfer dollar disbursement, plus estimated interest earned on funds deposited in the separate account for which we can reimburse the GOCR. For the ESR IX program, only transactions taking place after the last review of documentation on file at the BCCR for the ESR VIII program will be eligible for financing.

The review of the import transactions submitted by the BCCR is performed, on behalf of the mission, by a recognized Public Accounting (CPA) firm in accordance with the criteria set forth in the ESR agreement. In general the CPA firm will be asked to review only transactions above $15,000 in an effort to try to minimize the number of transactions which must be reviewed. Only if the amount arrived at is not enough to cover the planned release will transactions under $15,000 be reviewed. The Mission has obtained successful results in the past using this system and does not anticipate any difficulty utilizing it in the future.

Specificallly, the CPA firm will be asked to review the following in order to determine a particular import transaction's eligibility:

a) that the NAUCA code is part of the Mission's approved list;

b) product origin is the United States;

c) the BCCR's file has the application and approval of foreign exchange;

d) the BCCR's file has a copy of the supplier's invoice;

e) the BCCR's file has the Bill of Lading;

f) the BCCR's file has the custom's declaration ("poliza") indicating the commodity's entry into the country;

g) evidence of payment by the BCCR (it should be noted that the Mission allows TCIP-guaranteed transactions so long as the GOCR has paid off the line of credit at the commercial bank and eliminated the contingent liability of double financing);

The public accounting firm which reviews the supporting documentation also provides recommendations on improving relevant BCCR internal controls. The Mission encourages the BCCR to implement these recommendations, and the implementation of these recommendations is verified in subsequent reviews.

After Mission confirmation of import transactions eligible for reimbursement under the agreement, the Mission authorizes release of dollars from the separate account to the GOCR general accounts as reimbursement for imports by the Costa Rican private sector. Prior to the release, the BCCR must indicate in what banks and in which accounts it wants to deposit the funds. The BCCR must have previously submitted a certification by the Bank Auditor General of Costa Rica, or other competent entity, that these accounts are recognized and legitimate GOCR accounts. Finally, the Mission requests that the BCCR instruct the banking institution(s) to which the funds are to be released, to directly advise AID of the account number, date and amount of the deposit(s).

3. Audit Provisions

Audit coverage will be provided for the various Cash Transfer dollar and local currency elements of this program as follows:

- Cash Transfer dollars are the audit responsibility of the Mission and is to be performed either by an independent firm or by the central audit agency if capable, or by the IG.

- Activities undertaken with HCOLC are the audit responsibility of the GOCR Controller General. The Mission will monitor the quality and the results of the audits.

E. Relationship with Mission Strategy

The Mission's country strategy for the 1990s is to further deepen and expand Costa Rica's commitment to market-based macroeconomic and trade and investment policies. The strategy builds on the substantial macroeconomic stability and growth gains made over the 1980s and focuses on three shared objectives: (1) private sector-led export expansion; (2) preservation and sustainable economic uses of natural resources; and (3) streamlined, more responsive government. Accordingly, U.S. economic assistance in the 1990s will be focused on balance of payments and fiscal reforms critical to private sector confidence and restoration of viable levels of public sector investments in socioeconomic support systems. Program conditionality, which will be structured in coordination with other donors, will support sound macroeconomic policies and such continuing adjustments as are necessary to maintain and expand Costa Rica's market share and competitiveness in areas of comparative economic advantage and responsible public sector operational and fiscal policies. For example, the GOCR will be required to establish a plan that will rationalize trade and investment incentives. It will involve serious participation by other donors and an implementation schedule.

Building on the generally favorable macroeconomic framework presently in place, the Calderon Administration since taking office in May 1990 has embarked on a course of well-directed but politically difficult fiscal and public sector employment reform measures intended to both decrease the deficit and restore a healthy balance between recurring and capital expenditures. Concurrently, the present Administration is negotiating to position Costa Rica in the front ranks of Latin American nations prepared to take advantage of the U.S.-sponsored Partnership for Democracy and Development (PDD) and the Enterprise for the Americas Initiative (EAI) announced by President Bush in June 1990. Continued bilateral balance of payments and development assistance (albeit at much lower levels than in the 1980s) for at least the first few years of the 1990s, within the framework of the PDD and EAI programs, will enable the GOCR to implement further its austere and politically-sensitive public sector employment reduction and restructuring, bolster U.S.-Costa Rican political ties, and move our economic relationship further away from concessional aid and more toward expanded trade and investment.

Given the gains of the 1980s, Costa Rica's prospects for achieving self-sustaining growth status in the 1990s must be considered good, but they are heavily contingent on completing the national policy and regulatory reforms and infrastructure networks associated with the three strategic objectives. Further, foreign reserve levels remain dangerously low for investor confidence and will likely remain so for at least the next few years. Thus, ESF dollars for FY 1991 will be allocated for balance of payments support. Building on more general ongoing private sector support actions and resource allocations of recent years, policy conditionality is focused more directly on critical actions that will promote improved free trade and investment opportunities. The current precipitous decline of ESF levels for Costa Rica may be an indication that the last significant availabilities of such resources may be over this Action Plan period. The Mission has therefore chosen to move ahead this year with the focus on trade and investment. The specific conditionality package proposed is outlined in Section VI.A of this PAAD.

F. Complementary Mission Activities

For a trade liberalization effort to succeed, a stable macroeconomic environment is required, and more specifically a more balanced fiscal situation is necessary. Additionally, support for trade liberalization from the government and from the different interest groups is essential. The Mission is actively pursuing a number of activities designed to increase the probability of success of the trade liberalization effort.

The Mission has cooperated closely with the IMF and has programmed jointly with the GOCR about US$20 million of HCOLC for severance payments to dismissed public sector employees. Adherence to the macroeconomic stabilization program will remain a precondition of ESF assistance. The Mission continues to finance assistance in the area of pension reform. Additionally, the Mission is financing studies of the fiscal revenue effect of tariff reduction and of the fiscal effects of rationalizing the system of exonerations.

The Mission is also financing a public diplomacy effort on trade liberalization, which is being carried out jointly with the Ministry of Foreign Trade. This includes a series of studies of the financial and economic costs and benefits of trade liberalization, a trip to Mexico and Canada by selected legislators and private sector individuals to observe the effects of trade liberalization and issues related to the Free Trade Agreement with the United States, and a conference on trade and investment. These activities are expected to help develop the consensus needed to continue to reduce barriers to international trade.

A new DA project (financial services) will provide technical assistance for macroeconomic and financial policy, and to improve the supervision of non-bank financial intermediaries. USAID/Costa Rica and AID/A/PRE are working on a guarantee program that would permit the use of 936 funds.

G. Coordination with the World Bank and Inter-American Development Bank

The World Bank has begun negotiations on a third Structural Adjustment Loan (SAL III), which may be co-financed with the Government of Japan and with the IDB. Two areas of concentration of SAL III will be trade liberalization and public sector efficiency. AID trade liberalization activities can contribute to an acceleration of the process and would increase the probability of success of the efforts of the World Bank. As mentioned above, AID will finance activities designed to improve the allocation of public resources and thus contribute to an increase in the efficiency of the public sector.

The World Bank is also discussing a Sector Adjustment Loan (SECAL) for the agricultural sector. AID-financed studies of price policy, of the institutional aspects of the grain trade, and of the institutional aspects of the Ministry of Agriculture helped to define the conditionality for the agricultural SECAL. The results of the AID-financed studies were presented at a seminar co-sponsored by AID and the World Bank, and attended by policy makers, legislators and the private sector. Policy measures under this program are expected to promote trade liberalization, particularly in grains, and efficiency of public agricultural institutions.

The conditions necessary for Costa Rica to participate in the debt reduction component of the EAI are: (a) to have an arrangement with the IMF; (b) to have an adjustment-lending program with the World Bank; (c) to have restructured debt to the commercial banks; and (d) to have an adequate investment climate. Operationally, meeting this last condition requires an investment loan from the IDB. USAID/Costa Rica is cooperating closely with the IDB on an assessment of the investment climate that will be used as a step toward negotiation of an IDB investment sector loan.

COSTA RICA: SELECTED ECONOMIC INDICATORS

ANNEX A

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP-Current prices (mil colones)	57103	97505	129314	163011	197920	246579	284261	349661	428071	515219
GDP-US$ equivalent	1974	2607	3146	3663	3927	4403	4536	4583	5216	5552
GDP-Constant 1966 prices	9430	8743	8993	9714	9784	10326	10872	11190	11803	12225
POPULATION	2307	2372	2436	2501	2569	2638	2709	2782	2858	2935
GDP-percapita US$	856	1099	1291	1465	1529	1670	1674	1647	1825	1892
Growth of GDO- Constant prices										
GDP	-2.3	-7.3	2.9	8.0	0.7	5.5	4.8	3.4	5.5	3.6
Basic Productive Sectors	-1.2	-10.8	3.0	11.3	-1.0	5.8	4.5	3.0	5.4	2.9
—Agriculture	5.1	-4.7	4.0	10.1	-5.5	4.8	4.2	4.6	5.8	4.1
—Manufacturing	-0.5	-11.4	1.8	10.4	2.0	7.3	5.5	2.2	3.8	3.2
—Construction	-21.7	-31.9	4.7	23.6	5.6	3.1	1.1	0.0	12.4	-4.1
Government	1.8	-2.9	-1.6	1.5	0.5	2.0	2.5	2.0	2.0	1.5
Other sectors	-4.3	-4.5	3.8	6.2	2.6	6.0	5.5	4.2	6.3	4.7
Prices										
GDP Deflator (Annual change)	41.1	84.2	28.9	16.7	20.5	18.0	10.1	18.8	16.1	16.2
Consumer Prices (end of period)	65.1	81.7	10.7	17.3	10.9	15.4	16.4	25.3	10.0	27.3
Wholesale Prices (end of period)	117.2	79.1	5.9	12.2	7.6	11.9	10.9	19.6	10.7	25.9
Labor										
Unemployment rate (%)	8.8	9.4	9.1	8	6.9	6.3	5.6	5.5	3.8	4.7
Employed Lbor Force (000)	726	759	759	797	827	854	923	951	987	1017
Exchange rate										
Average, colones per US$	21.8	37.4	41.1	44.5	50.4	56.0	62.8	75.8	81.5	92.3
End of period. colones per US$	36.1	40.2	43.4	47.7	53.7	58.9	69.25	79.5	84.3	104.5

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ANNEX A

Table A. - Performance of Gross Domestic Product by Expenditure Items

-Mil 1966 Colones-

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross Domestic Product	8587	9125	9576	9648	9430	8743	8993	9715	9785	10326	10818	11190	11804	12225
Net Foreign Balance	-631	-603	-609	-620	805	1132	706	802	463	23	161	525	547	627
Imports of Goods & Services	3732	4012	4129	3987	2937	2405	2785	3082	3267	3841	4517	4563	5267	5614
Exports of Goods & Services	3101	3409	3520	3367	3742	3537	3491	3885	3729	3865	4678	5088	5814	6240
Gross Domestic Expenditure	9218	9728	10185	10268	8625	7610	8287	8912	9322	10303	10657	10665	11257	11599
Consumption	6853	7373	7611	7514	6911	6332	6586	7026	7289	7643	7915	8108	8531	8896
Private Consumption	5726	6205	6353	6238	5706	5158	5447	5842	6093	6418	6663	6818	7197	7528
Public Consumption	1127	1168	1258	1276	1205	1174	1140	1184	1196	1225	1252	1290	1335	1368
Gross Domestic Investment	2365	2356	2573	2753	1715	1279	1701	1887	2033	2660	2742	2557	2726	2703
Gross Fixed Investment	2147	2322	2676	2424	1821	1315	1423	1795	1892	2116	2334	2249	2533	2766
Public	739	689	852	868	656	473	534	573	696	717	719	577	565	607
Private	1408	1633	1824	1556	1165	842	889	1222	1196	1399	1615	1672	1967	2158
Change in Inventories	218	34	-104	329	-106	-36	278	92	141	544	408	308	193	-63
Private + Inventories	1626	1667	1721	1885	1059	806	1167	1314	1337	1943	2023	1980	2160	2095
Gross Domestic Expend. (GDP+NFB)	9218	9728	10185	10268	8625	7610	8287	8912	9322	10303	10657	10665	11257	11599
Gross Domestic Expnd.(C+I)	9218	9728	10184	10267	8625	7611	8287	8912	9322	10303	10657	10665	11257	11599
Population	2071	2126	2192	2246	2307	2372	2436	2501	2569	2638	2709	2782	2854	2935
GDP per capita	4147	4293	4368	4297	4087	3687	3692	3884	3809	3914	3993	4022	4135	4165
Total Consumption per Capita	3310	3469	3472	3346	2995	2670	2704	2809	2838	2897	2922	2914	2989	3031
Private Consumption per Capita	2765	2919	2898	2778	2473	2175	2236	2335	2372	2433	2459	2451	2521	2565
GDI per capita	1142	1108	1173	1226	743	539	698	754	791	1008	1012	919	955	921
GDP Nominal	26331	30194	34584	41406	57103	97505	129314	163011	197920	246579	284533	349661	428071	515219

Table B. - Performance of Gross Domestic Product by Expenditure Items

-Annual % Change-

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP	6.3	4.9	0.8	-2.3	-7.3	2.9	8.0	0.7	5.5	4.8	3.4	5.5	3.6
Imports of Goods & Services	7.5	2.9	-3.4	-26.3	-18.1	15.8	10.7	6.0	17.6	17.6	1.0	15.4	6.6
Exports of Goods & Services	9.9	3.3	-4.3	11.1	-5.5	-1.3	11.3	-4.0	3.6	21.0	8.8	14.3	7.3
GDExpenditures	5.5	4.7	0.8	-16.0	-11.8	8.9	7.5	4.6	10.5	3.4	0.1	5.6	3.0
Consumption	7.6	3.2	-1.3	-8.0	-8.4	4.0	6.7	3.8	4.9	3.6	2.4	5.2	4.3
Private Consumption	8.4	2.4	-1.8	-8.5	-9.6	5.6	7.2	4.3	5.3	3.8	2.3	5.6	4.6
Public Consumption	3.7	7.7	1.5	-5.6	-2.5	-2.9	3.9	1.1	2.4	2.2	3.0	3.5	2.5
Gross Domestic Investment	-0.4	9.2	7.0	-37.7	-25.4	33.0	10.9	7.7	30.8	3.1	-6.7	6.6	-0.8
Gross Fixed Investment	8.2	15.2	-9.4	-24.9	-27.8	8.2	26.1	5.4	11.8	10.3	-3.7	12.6	9.2
Public	-6.8	23.7	1.9	-24.4	-27.9	12.9	7.3	21.5	3.0	0.3	-19.7	-2.0	7.5
Private	16.0	11.7	-14.7	-25.1	-27.7	5.6	37.5	-2.2	17.0	15.5	3.5	17.7	9.7
Change in Inventories	-84.6	-409.0	-417.7	-132.3	-65.9	-866.9	-67.0	54.0	285.4	-25.0	-24.4	-37.4	-132.5
Private + Inventories	2.5	3.2	9.5	-43.8	-23.9	44.8	12.6	1.8	45.3	4.1	-2.1	9.1	-3.0
Gross Domestic Expend. (GDP+NFB)	5.5	4.7	0.8	-16.0	-11.8	8.9	7.5	4.6	10.5	3.4	0.1	5.6	3.0
Gross Domestic Expnd.(C+I)	5.5	4.7	0.8	-16.0	-11.9	8.9	7.5	4.8	10.5	3.4	0.1	5.5	3.0
Population	2.7	3.1	2.4	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7	2.6	2.8
GDP per capita	3.5	1.7	-1.6	-4.9	-9.8	0.2	5.2	-1.9	2.8	2.0	0.7	2.8	0.7
Total Consumption per Capita	4.8	0.1	-3.6	-10.5	-10.9	1.3	3.9	1.0	2.1	0.8	-0.3	2.6	1.4
Private Consumption per Capita	5.6	-0.7	-4.1	-11.0	-12.0	2.8	4.4	1.6	2.6	1.1	-0.4	2.9	1.7
GDI per capita	-3.0	5.9	4.5	-39.4	-27.4	29.5	8.0	4.9	27.4	0.4	-9.2	3.9	-3.6
GDP Nominal	14.7	14.5	19.7	37.9	70.8	32.6	26.1	21.4	24.6	15.4	22.9	22.4	20.4

Table C. - Performance of Gross Domestic Product by Expenditure Items

1977=100

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
GDP	100.0	106.3	111.5	112.4	109.8	101.8	104.7	113.1	113.9	120.3	126.0	130.3	137.5	142.4
Net Foreign Balance	100.0	95.5	96.5	98.2	-127.5	-179.5	-111.9	-127.1	-73.3	-3.7	-25.5	-83.2	-86.6	-99.3
Imports of Goods & Services	100.0	107.5	110.6	106.8	78.7	64.4	74.6	82.6	87.5	102.9	121.0	122.3	141.1	150.4
Exports of Goods & Services	100.0	109.9	113.5	108.6	120.7	114.1	112.6	125.3	120.3	124.6	150.9	164.1	187.5	201.3
GDExpenditures	100.0	105.5	110.5	111.4	93.6	82.6	89.9	96.7	101.1	111.8	115.6	115.7	122.1	125.8
Consumption	100.0	107.6	111.1	109.7	100.8	92.4	96.1	102.5	106.4	111.5	115.5	118.3	124.5	129.8
Private Consumption	100.0	108.4	111.0	108.9	99.6	90.1	95.1	102.0	106.4	112.1	116.4	119.1	125.7	131.5
Public Consumption	100.0	103.7	111.7	113.3	106.9	104.2	101.1	105.1	106.2	108.7	111.1	114.5	118.5	121.4
GDInvestment	100.0	99.6	108.8	116.4	72.5	54.1	71.9	79.8	86.0	112.5	116.0	108.1	115.2	114.3
GFInvestment	100.0	108.2	124.6	112.9	84.8	61.2	66.3	83.6	88.1	98.5	108.7	104.8	118.0	128.8
Public	100.0	93.2	115.3	117.5	88.8	64.0	72.3	77.5	94.2	97.0	97.3	78.1	76.5	82.2
Private	100.0	116.0	129.5	110.5	82.7	59.8	63.1	86.8	84.9	99.3	114.7	118.8	139.7	153.3
Change in Inventories	100.0	15.4	-47.5	150.9	-48.7	-16.6	127.4	42.1	64.8	249.7	187.2	141.5	88.6	-28.8
Private + Inventories	100.0	102.5	105.8	115.9	65.1	49.6	71.8	80.8	82.2	119.5	124.4	121.8	132.9	128.9
GDE	100.0	105.5	110.5	111.4	93.6	82.6	89.9	96.7	101.1	111.8	115.6	115.7	122.1	125.8
GDE(C+I)	100.0	105.5	110.5	111.4	93.6	82.6	89.9	96.7	101.1	111.8	115.6	115.7	122.1	125.8
Population	100.0	102.7	105.9	108.4	111.4	114.5	117.6	120.8	124.1	127.4	130.8	134.4	137.9	141.7
GDP per capita	100.0	103.5	105.3	103.6	98.5	88.9	89.0	93.7	91.8	94.4	96.3	97.0	99.7	100.4
Total consumption per capita	100.0	104.8	104.9	101.1	90.5	80.7	81.7	84.9	85.7	87.5	88.3	88.1	90.3	91.6
Private consumption per capita	100.0	105.6	104.8	100.5	89.4	78.6	80.9	84.4	85.8	88.0	88.9	88.6	91.2	92.7
GDI per capita	100.0	97.0	102.7	107.3	65.1	47.2	61.1	66.0	69.3	88.3	88.6	80.5	83.6	80.6

Table D. - Performance of Gross Domestic Product By Expenditure Items

-% of GDP-

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Gross Domestic Product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Net Foreign Balance	-7.3	-6.6	-6.4	-6.4	8.5	13.0	7.8	8.3	4.7	0.2	1.5	4.7	4.6	5.1
Imports of Goods & Services	43.5	44.0	43.1	41.3	31.1	27.5	31.0	31.7	33.4	37.2	41.8	40.8	44.6	45.9
Exports of Goods & Services	36.1	37.4	36.8	34.9	39.7	40.5	38.8	40.0	38.1	37.4	43.2	45.5	49.3	51.0
Gross Domestic Expenditure	107.3	106.6	106.4	106.4	91.5	87.0	92.2	91.7	95.3	99.8	98.5	95.3	95.4	94.9
Consumption	79.8	80.8	79.5	77.9	73.3	72.4	73.2	72.3	74.5	74.0	73.2	72.5	72.3	72.8
Private Consumption	66.7	68.0	66.3	64.7	60.5	59.0	60.6	60.1	62.3	62.2	61.6	60.9	61.0	61.6
Public Consumption	13.1	12.8	13.1	13.2	12.8	13.4	12.7	12.2	12.2	11.9	11.6	11.5	11.3	11.2
Gross Domestic Investment	27.5	25.8	26.9	28.5	18.2	14.6	18.9	19.4	20.8	25.8	25.4	22.9	23.1	22.1
Gross Fixed Investment	25.0	25.4	27.9	25.1	19.3	15.0	15.8	18.5	19.3	20.5	21.6	20.1	21.5	22.6
Public	8.6	7.6	8.9	9.0	7.0	5.4	5.9	5.9	7.1	6.9	6.6	5.2	4.8	5.0
Private	16.4	17.9	19.0	16.1	12.4	9.6	9.9	12.6	12.2	13.5	14.9	14.9	16.7	17.7
Change in Inventories	2.5	0.4	-1.1	3.4	-1.1	-0.4	3.1	0.9	1.4	5.3	3.8	2.8	1.6	-0.5
Private + Inventories	18.9	18.3	18.0	19.5	11.2	9.2	13.0	13.5	13.7	18.8	18.7	17.7	18.3	17.1

Table E. - Performance of Gross Domestic Product By Productive Sectors

-Mil 1966 Colones-

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture(+Forestry,Hunting,Fishing)	1628.7	1736.2	1744.8	1738.1	1824.6	1738.8	1808.3	1990.3	1860.4	1970.8	2053.4	2147.8	2272.4	2365.6
Manufacturing(+Mining,Quarrying)	1893.0	2048.2	2102.8	2119.6	2109.0	1868.6	1902.2	2100.0	2142.2	2298.6	2425.0	2478.4	2572.6	2654.9
Construction	482.8	510.8	609.4	602.7	471.9	321.4	336.5	415.9	439.2	453.0	457.9	458.1	514.9	493.8
Electricity(+Water)	181.6	191.4	201.2	224.9	242.4	252.6	303.6	313.3	290.1	307.8	331.5	339.8	356.8	376.4
Commerce(+Restaurants,Hotels)	1653.2	1722.6	1794.0	1740.8	1556.3	1374.2	1418.2	1579.9	1652.6	1768.3	1839.0	1862.9	1969.1	2063.6
Transport(+Warehousing,Communications)	512.2	572.1	643.0	676.4	671.7	666.3	676.3	700.6	716.7	770.4	838.2	908.6	990.4	1049.8
Financial Services	410.1	444.1	486.3	500.4	490.4	494.3	522.0	551.7	573.2	618.5	669.8	728.1	792.9	831.0
Housing	603.1	623.6	649.2	664.7	676.0	682.1	689.0	700.0	711.2	725.4	743.5	765.8	787.2	806.1
Services(Other personal services)	383.1	395.0	412.4	415.5	403.0	388.5	396.3	408.2	419.6	435.1	456.4	477.0	503.6	524.8
Government	839.1	881.1	932.7	966.7	984.3	955.8	940.5	954.6	959.4	978.6	1003.0	1023.1	1043.6	1059.3
Gross Dom. Product (Sum of above)	8586.9	9125.1	9575.8	9647.8	9429.6	8742.6	8992.9	9714.5	9784.6	10326.3	10817.7	11189.6	11803.5	12225.3
Basic Productive Sectors(A+M+C)	4004.5	4295.2	4457.0	4458.4	4405.5	3928.8	4047.0	4506.2	4461.8	4722.2	4936.3	5084.3	5359.9	5514.3
Government	839.1	881.1	932.7	966.7	984.3	955.8	940.5	954.6	959.4	978.6	1003.0	1023.1	1043.6	1059.3
Other Sectors	3743.3	3948.8	4186.1	4222.7	4039.8	3858.0	4005.4	4253.7	4363.4	4625.5	4878.4	5082.2	5400.0	5651.7
GDP (From Expenditure Tab.)	8586.9	9125.1	9575.8	9648.0	9429.6	8742.6	8992.9	9714.5	.9784.6	10326.3	10817.7	11189.6	11803.5	12225.3
GDP by VA/GDP by ET	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Table F. - Performance of Gross Domestic Product By Productive Sectors

-Annual % Change-

	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture(+Forestry,Hunting,Fishing)	6.6	0.5	-0.5	5.1	-4.7	4.0	10.1	-5.5	4.8	4.2	4.6	5.8	4.1
Manufacturing(+Mining,Quarrying)	8.2	2.7	0.8	-0.5	-11.4	1.8	10.4	2.0	7.3	5.5	2.2	3.8	3.2
Construction	5.8	19.3	-1.1	-21.7	-31.9	4.7	23.6	5.6	3.1	1.1	0.0	12.4	-4.1
Electricity(+Water)	5.4	5.1	11.8	7.8	4.2	20.2	3.2	-7.4	6.1	7.7	2.5	5.0	5.5
Commerce(+Restaurants,Hotels)	4.2	4.1	-3.0	-10.6	-11.7	3.2	11.4	4.6	7.0	4.0	1.3	5.7	4.8
Transport (+Warehousing, Communications	11.7	12.4	5.2	-0.7	-0.8	1.5	3.6	2.3	7.5	8.8	8.4	9.0	6.0
Financial Services	8.3	9.5	2.9	-2.0	0.8	5.6	5.7	3.9	7.9	8.3	8.7	8.9	4.8
Housing	3.4	4.1	2.4	1.7	0.9	1.0	1.6	1.6	2.0	2.5	3.0	2.8	2.4
Services (Other personal services)	3.1	4.4	0.8	-3.0	-3.6	2.0	3.0	2.8	3.7	4.9	4.5	5.6	4.2
Government	5.0	5.9	3.6	1.8	-2.9	-1.6	1.5	0.5	2.0	2.5	2.0	2.0	1.5
Gross Dom. Product (Sum of above)	6.3	4.9	0.8	-2.3	-7.3	2.9	8.0	0.7	5.5	4.8	3.4	5.5	3.6
Basic Productive Sectors(A+M+C)	7.3	3.8	0.0	-1.2	-10.8	3.0	11.3	-1.0	5.8	4.5	3.0	5.4	2.9
Government	5.0	5.9	3.6	1.8	-2.9	-1.6	1.5	0.5	2.0	2.5	2.0	2.0	1.5
Other Sectors	5.5	6.0	0.9	-4.3	-4.5	3.8	6.2	2.6	6.0	5.5	4.2	6.3	4.7

Table G. - Performance of Gross Domestic Product By Productive Sectors

1977=100

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture(+Forestry,Hunting,Fishing)	100.0	106.6	107.1	106.6	112.0	106.8	111.0	122.2	115.5	121.0	126.1	131.9	139.5	145.2
Manufacturing(+Mining,Quarrying)	100.0	108.2	111.1	112.0	111.4	98.7	100.5	110.9	113.2	121.4	128.1	130.9	135.9	140.2
Construction	100.0	105.8	126.2	124.8	97.7	66.6	69.7	86.1	91.0	93.8	94.8	94.9	106.6	102.3
Electricity(+Water)	100.0	105.4	110.8	123.8	133.5	139.1	167.2	172.5	159.7	169.5	182.5	187.1	196.5	207.3
Commerce(+Restaurants,Hotels)	100.0	104.2	108.5	105.3	94.1	83.1	85.8	95.6	100.0	107.0	111.2	112.7	119.1	124.8
Transport(+Warehousing,Communications)	100.0	111.7	125.5	132.1	131.1	130.1	132.0	136.8	139.9	150.4	163.6	177.4	193.4	205.0
Financial Services	100.0	108.3	118.6	122.0	119.6	120.5	127.3	134.5	139.8	150.8	163.3	177.5	193.3	202.6
Housing	100.0	103.4	107.6	110.2	112.1	113.1	114.2	116.1	117.9	120.3	123.3	127.0	130.5	133.7
Services(Other personal services)	100.0	103.1	107.6	108.5	105.2	101.4	103.4	106.6	109.5	113.6	119.1	124.5	131.5	137.0
Government	100.0	105.0	111.2	115.2	117.3	113.9	112.1	113.8	114.3	116.6	119.5	121.9	124.4	126.2
Gross Dom. Product (Sum of above)	100.0	106.3	111.5	112.4	109.8	101.8	104.7	113.1	113.9	120.3	126.0	130.3	137.5	142.4
Basic Productive Sectors(A+M+C)	100.0	107.3	111.3	111.3	110.0	98.1	101.1	112.5	111.4	117.9	123.3	127.0	133.8	137.7
Government	100.0	105.0	111.2	115.2	117.3	113.9	112.1	113.8	114.3	116.6	119.5	121.9	124.4	126.2
Other Sectors	100.0	105.5	111.8	112.8	107.9	103.1	107.0	113.6	116.6	123.6	130.3	135.8	144.3	151.0

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Table H. - Performance of Gross Domestic Product By Productive Sectors

-% of GDP-

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Agriculture(+Forestry,Hunting,Fishing)	19.0	19.0	18.2	18.0	19.3	19.9	20.1	20.5	19.2	19.1	19.0	19.2	19.3	19.4
Manufacturing(+Mining,Quarrying)	22.0	22.4	22.0	22.0	22.4	21.4	21.2	21.6	21.9	22.3	22.4	22.1	21.8	21.7
Construction	5.6	5.6	6.4	6.2	5.0	3.7	3.7	4.3	4.5	4.4	4.2	4.1	4.4	4.0
Electricity(+Water)	2.1	2.1	2.1	2.3	2.6	2.9	3.4	3.2	3.0	3.0	3.1	3.0	3.0	3.1
* Construction Elect & Water	7.7	7.7	8.5	8.6	7.6	6.6	7.1	7.5	7.5	7.4	7.3	7.1	7.4	7.1
Commerce(+Restaurants,Hotels)	19.3	18.9	18.7	18.0	16.5	15.7	15.8	16.3	16.9	17.1	17.0	16.6	16.7	16.9
* Commerce & Other Services	23.7	23.2	23.0	22.4	20.8	20.2	20.2	20.5	21.2	21.3	21.2	20.9	20.9	21.2
Transport(+Warehousing,Communications)	6.0	6.3	6.7	7.0	7.1	7.6	7.5	7.2	7.3	7.5	7.7	8.1	8.4	8.6
Financial Services	4.8	4.9	5.1	5.2	5.2	5.7	5.8	5.7	5.9	6.0	6.2	6.5	6.7	6.8
Housing	7.0	6.8	6.8	6.9	7.2	7.8	7.7	7.2	7.3	7.0	6.9	6.8	6.7	6.6
Services(Other personal services)	4.5	4.3	4.3	4.3	4.3	4.4	4.4	4.2	4.3	4.2	4.2	4.3	4.3	4.3
Government	9.8	9.7	9.7	10.0	10.4	10.9	10.5	9.8	9.8	9.5	9.3	9.1	8.8	8.7
Gross Domestic Product (Sum of above)	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Basic Productive Sectors(A+M+C)	46.6	47.1	46.5	46.2	46.7	44.9	45.0	46.4	45.6	45.7	45.6	45.4	45.4	45.1
Government	9.8	9.7	9.7	10.0	10.4	10.9	10.5	9.8	9.8	9.5	9.3	9.1	8.8	8.7
Other Sectors	43.6	43.3	43.7	43.8	42.8	44.1	44.5	43.8	44.6	44.8	45.1	45.4	45.7	46.2

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ANNEX A

	1989 IMF Program	1989 Actual	May 1990 Passive Deficit	1990 Actual	1991 IMF Program
CENTRAL GOVERNMENT					
REVENUE	65530	65100	73300	76100	104700
EXPENDITURES	73000	82430	97115	98965	117000
Wages	22540	23734	29360	30238	35680
CATs	n.a.	4295	5460	5931	6600
Interest	10850	12540	16615	15998	24538
Capital	10155	12803	10785	10511	10900
Other	n.a.	29058	34895	36287	39282
CENTRAL GOVERNMENTBALANCE	-7470	-17330	-23815	-22865	-12300
ENTERPRISES					
CNP	-275	-503	-2040	-1472	-833
RECOPE	1440	492	-2155	643	6572
CCSS	4050	3091	2783	4555	6639
ICE	2150	2835	206	2524	5808
JPSSJ	n.a.	242	217	209	228
TOTAL	n.a.	6157	-989	6459	18414
OTHER	1107	1109	-1299	-113	1492
REST OF NFPS	8472	7266	-2288	6346	19906
(enterprises+other)					
NFPS	1002	-10064	-26103	-16519	7606
CENTRAL BANK	-13050	-11570	-11663	-10067	-10800
TOTAL PUBLIC SECTOR	-12048	-21634	-37766	-26586	-3194
MEMO ITEM: GDP	435100	433138	529292	527040	616640

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ANNEX A

	1987	1988	1989	1990	1991
CURRENT ACCOUNT	-408.5	-311.7	-465.6	-657.8	-217.7
Trade Balance	-282.4	-239.5	-429.7	-676.5	-269.7
Exports	1106.4	1180.7	1322.7	1358.3	1525.0
Coffee	334.3	316.4	286.2	231.0	259.9
Bananas	228.6	221.1	270.5	309.6	345.0
Other traditional	77.5	68.2	64.1	76.2	71.3
Nontraditional exports	466.0	575.0	701.9	741.5	848.8
Imports	-1388.8	-1420.2	-1752.4	-2034.8	-1794.7
Non-oil	1267.2	1305.4	1605.1	1843.0	1628.9
Oil	121.6	114.8	147.3	191.8	165.8
Factor Payments	-295.4	-325.3	-356.0	-300.6	-289.6
Official interest due	-284.7	-303.4	-298.3	-252.2	-234.1
Other	-10.7	-21.9	-57.7	-48.4	-55.5
Other services and non-balance of payments transfers	169.3	253.1	320.1	319.3	341.6
CAPITAL ACCOUNT	-202.4	-150.4	10.6	-127.3	153.2
Public	-316.5	-330.3	-349.0	-340.5	-19.0
Disbursements	83.8	96.4	87.6	201.1	211.7
Amortization due	-400.3	-426.7	-436.6	-541.6	-230.7
Private	114.1	179.9	359.6	213.2	172.2
BALANCE OF PAYMENTS SUPPORT	120.0	125.0	105.0	110.0	230.0
U.S. A.I.D. (ESF)	120.0	125.0	65.0	70.0	30.0
IBRD/Japan SAL	0.0	0.0	40.0	40.0	200.0
OVERALL BALANCE OF PAYMENTS BEFORE DEBT RELIEF	-490.9	-337.1	-350.0	-675.1	165.5
RESCHEDULING	42.9	108.6	229.7	1023.4	135.4
Current obligations	21.8	25.0	15.1	115.3	0.0
Past obligations	21.1	83.6	214.6	908.1	135.4
ARREARS SUBJECT TO RESCHEDULING (+ INCREASE)	253.9	212.0	203.0	-861.8	-118.9
OVERALL BALANCE OF PAYMENTS AFTER DEBT RELIEF	-194.1	-16.5	82.7	-513.5	182.0
NET INTERNATIONAL RESERVES	194.1	16.5	-82.7	513.5	-333.3
Nonrefinanciable arrears (+ increase)	118.4	121.4	-67.7	209.5	-61.4
Net official reserves (+ increase)	75.7	-104.9	-15.0	304.0	-120.7
Net use of fund credit	-40.1	-60.9	-33.4	-25.6	82.0
Other net official reserves	115.8	-44.0	18.4	329.6	-202.7
Financing Gap	0.0	0.0	0.0	0.0	-151.2

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Costa Rica: External Public Debt outstanding
as at December 31, 1990
(in millions of US dollars)

ANNEX A

CREDITOR	PRINCIPAL	%	PAST DUE INTEREST	%	TOTAL
Multilaterals	1179.0	37.2	19.2	19.8	1198.2
---IMF	11.9	0.4	0.0	0.0	11.9
---Others	1167.1	36.8	19.2	19.8	1186.3
Commercial banks	632.1	19.9	10.1	10.4	642.2
Bilaterals	1321.5	41.6	67.2	69.1	1388.7
---Paris Club members	892.8	28.1	43.4	44.6	936.2
---Others	428.7	13.5	23.8	24.5	452.5
Others	40.0	1.3	0.7	0.7	40.7
---Suppliers	10.0	0.4	0.7	0.7	10.7
---Bonds	30.0	0.9	0.0	0.0	30.0
TOTAL	3172.6	100.0	97.2	100.0	3269.8

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ANNEX A

Costa Rica: Composition of External Arrears
by Category of External Creditors
(millions U.S. dollars)

	DEC 31 1989	DEC 31 1990
TOTAL	1293.4	300.4
PRINCIPAL	959.6	203.2
---Commercial banks	873.9	5.9
---Bilateral debt	65.5	151.5
----Paris Club	14.1	73.4
----Other	51.4	78.1
---Multilateral Institutions	18.6	44.1
----IDB	1.5	3.0
----World Bank	7.1	16.4
----CABEI	7.0	19.1
----Other	3.0	5.6
---Bonds and floating notes	0.3	0.0
---Suppliers credits	1.3	1.7
INTEREST	333.8	97.2
---Commercial banks	293.8	10.1
---Bilateral debt	35.3	67.2
----Paris Club	11.5	32.5
----Other	23.8	34.7
---Multilateral Institutions	4.2	19.2
----World Bank	0.7	3.3
----CABEI	2.3	14.6
----Other	1.2	1.3
---Bonds	0.0	0.0
---Suppliers credits	0.5	0.7

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ANNEX A

Costa Rica: Balance of Payments 1987-1991
(In millions of US dollars)

	1987	1988	1989	1990	1991
CURRENT ACCOUNT	-408.5	-311.7	-465.6	-657.8	-217.7
Trade balance	-282.4	-239.5	-429.7	-676.5	-269.7
---Exports (1)	1106.4	1180.7	1322.7	1358.3	1525.0
---Imports	-1388.8	-1420.2	-1752.4	-2034.8	-1794.7
Factor payments	-295.4	-325.3	-356	-300.6	-289.6
---Official interest due	-284.7	-303.4	-298.3	-252.2	-234.1
---Other	-10.7	-21.9	-57.7	-48.4	-55.5
Other services and non-BOP transfers	169.3	253.1	320.1	319.3	341.6
CAPITAL ACCOUNT	-202.4	-188.5	10.6	-137.3	106.2
Public	-316.5	-330.3	-349	-340.5	-60.5
---Disbursements	83.8	96.4	87.6	201.1	164.7
---Amortization due	-400.3	-426.7	-436.6	-541.6	-225.2
Private	114.1	141.8	359.6	203.2	166.7
BOP SUPPORT	120.0	125.0	105.0	110.0	230.0
---USAID (ESF)	120.0	125.0	65.0	70.0	30.0
---IBRD (SAL)	0.0	0.0	40.0	40.0	200.0
Overall BOP before debt relief	-490.9	-375.2	-350	-685.1	118.5
RESCHEDULING	42.9	108.6	229.7	1023.4	80.4
---Current obligations	21.8	25.0	15.1	115.3	0.0
---Past obligations	21.1	83.6	214.6	908.1	80.4
Arrears subject to rescheduling (+ increase)	253.9	250.1	203.0	-861.8	-118.9
Overall BOP after debt relief	-194.1	-16.5	82.7	-523.5	80.0
NET INTERNATIONAL RESERVES	194.1	16.5	-82.7	523.5	-333.3
---Non refinanceable arrears (+ increase)	118.5	121.6	-67.6	209.6	-212.6
---Net official reserves (- increase)	75.6	-105.1	-15.1	313.9	-120.7
Net use of Fund credit	-40.1	-60.9	-33.4	-25.6	82.0
Other net official reserves	115.7	-44.2	18.3	339.5	-202.7

(Excludes drawback value added, which is included in other services).

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Costa Rica: Central Bank Accounts
(in millions of colones)

ANNEX A

	(76 colons/$US1)		(81.5 colons/$us1)		(91.5 colons /$US1)		(115 colons/US$1)	
	1987	1988	1988	1989	1989	1990	1990	1991(proj)
Net International Reserves	-23485	-20094	-5550	866	20916	-27898	-35063	3266
Official Reserves (net)	-3109	4864	5216	6465	26681	-2928	-3680	10201
Payment Arrears	-20376	-24958	-10766	-5599	-5765	-24970	-31383	-6935
Net Domestic Assets	42955	44829	30284	27110	7061	55875	68952	36384
Public Sector Credit (net)	43532	39791	42248	41378	43014	54573	66977	48967
Rest of Banking Ssystem Credit	-11061	-15627	-20383	-19675	-44689	-44019	-50869	-74126
Govt Trust Funds	-15676	-18824	-18824	-16794	-16794	-18156	-18156	-33198
Counterpart arrears (nfps debt)	20376	24958	10766	5599	5765	24970	31383	6935
Oper losses of Central Bank (1)	42281	47137	47137	53450	104601	115075	115075	126189
Med & Long-term Foreign Liabilities	-125111	-125967	-135083	-130543	-169970	-129582	-162863	-167174
Stabilization Bonds	-7648	-16068	-16068	-23411	-23411	-21701	-21701	-25047
Other Items (net) (of which: valuation adj)	96262	109429	120491	117106	108545	74715	109106	153838
Currency Issue	19469	24734	24734	27977	27977	33889	33889	39650

Costa Rica: Banking System Accounts, 1984-1991
(in millions colones)

ANNEX A

	(76 colons/$US1)		(81.5colones/US$1)		(91.5 colons/US$1)		(115 colons/US$1)	
	1987	1988	1988	1989	1989	1990	1990	1991(proj)
Net International Reserves	-18746	-18383	996	8016	28940	-21077	-26491	12414
Foreign Assets (net)								
Foreign Assets								
Foreign Liabilities								
Payment Arrears								
Net Domestic Assets	140351	176272	167274	186545	173586	260142	282382	273735
Public Sector Credit (net)	36530	39392	40394	43752	45155	55859	66483	38474
-Adjusted Net Credit								
(Note: Counterpart of public sector debt assumed by Central Bank)								
-Central Govt								
-ROPS								
Private Sector	57369	65755	63508	70522	69527	84486	85378	99884
Med & Long-term Foreign Liabilities	-126863	-127880	-137137	-133252	-173013	-132987	-166943	-171231
Other Items (net)	173315	199005	200509	205523	231916	252784	297464	306608
Govt Trust Funds								
Counterpart arrears (nfps debt)								
Oper losses of Central Bank								
NDA-arrears	119975	151314	156508	180946	167820	235172	251000	266799
Liabilities to Private Sector								
Broad Money (M2)	121605	157889	168270	194561	202525	239065	255892	286148
Money	40225	54936	54936	56961	56961	62694	62694	73352
Quasi-money	81380	102953	113334	137600	145564	176371	193198	212796

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ANNEX B

Table No. 1

REDUCTION OF POSITIONS DURING FY 1990
(Ministries)

INSTITUTION	NUMBER OF EMPLOYEES	TOTAL COST	COST/PERSON	ESTIMATED SAVINGS/YEAR
Ministry of the Interior	43	9,300,000	216,000	17,000,000
Ministry of Justice	15	0	-	5,042,000
Ministry of the Pub. Security	4	913,000	228,000	1,525,000
Ministry of Agriculure	16	2,800,000	175,000	7,500,000
Ministry of the Economy	2	436,000	218,000	797,000
Ministry of Transport	65	11,600,000	178,000	27,233,000
Ministry of Education	29	0	-	3,749,000
Ministry of Health	26	6,680,000	257,000	12,696,000
Ministry of Labor	26	1,975,000	76,000	12,600,000
Ministry of Culture	6	1,350,000	225,000	2,350,000
Ministry of Planning	4	829,000	207,000	1,746,000
Ministry of Energy and Mines	15	2,815,000	188,000	7,283,000
Sub-Total	251	38,698,000	154,000	99,521,000

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ANNEX B

Table No. 1

REDUCTION OF POSITIONS DURING FY 1990
(Autonomous Institutions)

INSTITUTION	NUMBER OF EMPLOYEES	TOTAL COST	COST/PERSON	ESTIMATED SAVINGS/YEAR
FANAL	1	654,000	654,000	534,000
JPS	5	1,996,000	399,000	2,394,000
CNP	10	9,053,000	905,000	6,137,000
CODESA	11	2,685,000	244,000	6,604,000
ESPH	9	1,831,000	204,000	3,773,000
ICE	15	0	-	7,725,000
A Y A	42	10,390,000	247,000	18,668,000
INA	15	1,891,000	126,000	6,765,000
CCSS	13	10,398,000	800,000	12,600,000
INCOP	10	2,363,000	236,000	4,553,000
ICT	41	0	-	34,966,000
IDA	14	0	-	10,998,000
RECOPE	297	159,976,000	539,000	136,080,000
Sub-Total	383	201,237,000	525,000	251,797,000

ANNEX B

Table No. 1

FIRST STAGE
LABOR MOBILITY REDUCTION OF PROGRAMS

INSTITUTION	NUMBER OF EMPLOYEES	TOTAL COST	COST/PERSON	ESTIMATED SAVINGS/YEAR
FODESAF Family Allowance Program	1,905	547,000,000	287,139	546,547,000
INCOFER	717	285,000,000	286,614	244,291,000
Sub-Total	2,622	832,000,000**	317,000	791,000,000**
TOTAL	3,256	1,071,935,000	329,000	1,142,000,000*

* The estimate savings at the end of FY 1991

** Financed with C591M HCOLC and C241M from the National Budget

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ANNEX B

Table No. 2

SECOND STAGE
LABOR MOBILITY REDUCTION OF PROGRAMS COMPONENT

	PROGRAM	INSTITUTION	NUMBER OF EMPLOYEES	COST	ESTIMATED SAVINGS/YEAR
I.	FODESAF	Ministry of Agriculture	60	21,318,906	
		Ministry of Transport	125	45,318,000	
		Min. of the Interior	94	30,000,000	
		Office for Health International Cooperation	149	1,296,660	
		Water Sewage Institute	157	68,096,660	
		Sub-Total	585	236,030,066	1,277,,522,784
II.	INSTITUTIONS				
		CNP (Grain Distribution)	750	473,400,000	
		INCOP	320	126,000,000	
		INVU	400	210,000,000	
		RECOPE	270	70,000,000	
		Sub-Total	1,740	766,400,500	1,262,196,000
		TOTAL	2,325	1,002,430,566	2,539,718,000

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ANNEX B

Table No. 3

SECOND STAGE
LABOR MOBILITY VOLUNTARY PROGRAM COMPONENT

MOBILITY IN EXECUTION I. CENTRAL GOVERNMENT			PROJECTED MOBILITY		TOTAL		ESTIMATED SAVINGS/YEAR
Institution	Number of employees	Cost	Number of employees	Cost	Number of employees	Cost	
Housing	1	92,335	0	0	1	92,335	
Agricul.	32	8,300,000	48	13,500,000	80	21,800,000	
Transp.	156	37,978,995	44	10,401,305	200	48,380,300	
Education	5	1,693,320	0	0	5	1,693,200	
Planning	6	1,546,159	4	795,149	10	2,341,308	
Science & Tec.	0	0	1	284,088	1	284,088	
Economy	9	3,723,184	4	1,300,000	13	5,023,184	
Energ. & Mines	0	0	25	8,000,000	25	8,000,000	
Health	131	96,607,755	43	13,990,112	174	98,382,000	
Government	117	38,816,000	83	43,105,233	200	84,456,000	
Security	0	0	34	7,045,243	34	7,045,243	
Labor	0	0	16	3,050,904	16	3,950,904	
Foreign Trade	0	0	0	0	0	0	
Justice	0	0	49	13,698,276	49	13,698,276	
Finance	0	0	47	20,006,955	47	20,006,955	
Culture	24	5,060,353	13	3,389,827	37	8,450,180	
Foreign Affairs	1	110,498	0	0	1	110,498	
Sub-Total	482	194,000,000	411	140,000,000	893	270,000,000	480,000,000

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ANNEX B

Table No. 3

	MOBILITY IN EXECUTION II. NON FINANCIAL SECTOR		PROJECTED MOBILITY		TOTAL		ESTIMATED SAVINGS/YEAR
Institution	Number of employees	Cost	Number of employees	Cost	Number of employees	Cost	
IDA	0	0	10	0	10	0	5,500,000
FANAL	0	0	2	1,783,000	2	1,783,000	1,141,000
CNP	0	0	29	22,600,000	29	22,600,000	17,200,000
INCOFER	0	0	150	80,000,000	150	80,000,000	70,271,730
ICAA	0	0	88	27,364,000	88	27,364,000	36,400,000
ICE	0	0	17	7,034,000	17	7,034,000	14,700,000
INA	0	0	12	2,704,000	12	2,704,000	6,700,000
JPS	0	0	29	22,600,000	29	22,600,000	17,200,000
ESPH	0	0	4	753,000	4	753,000	1,789,000
CCSS	0	0	51	17,893,000	51	17,893,000	11,470,000
INCOP	0	0	16	4,453,000	16	4,453,000	5,547,800
RECOPE	0	0	74	39,400,000	74	39,400,000	50,000,000
Sub-Total			377	183,237,000	377	183,237,000	221,500,000
TOTAL	482	194,000,000	788	322,000,000	1,270	453,000,000	702,000,000

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LABOR MOBILITY PROGRAM
ESTIMATED TOTAL SAVINGS/YEAR

ACTION	NUMBER OF EMPLOYEES	TOTAL COST	COST/PERSON (average)	ESTIMATED SAVINGS/YEAR
* Reduction of Positions (FY 90)	634	240,000,000	378,000	351,000,000
* First Stage (Reduction of Programs)	2,262	832,000,000	317,000	791,000,000
** Second Stage (Reduction of Programs)	2,325	1,003,000,000	431,153	2,540,000,000
** Second Stage (Voluntary Program)	1,270	453,000,000	395,293	702,000,000
TOTAL	6,851	2,558,000,000	373,000	4,384,000,000

* Economic impact on FY 1991 (savings of C1,142 million, US$11.42 million)
** Economic impact on FY 1991 (savings of C3,242 million, US$32.42 million)

ANNEX C

INITIAL ENVIRONMENTAL EXAMINATION

Program Location:	Costa Rica
Program Title:	Trade and Investment Program
Program Number:	515-0250
Funding:	$24,000,000
Life of Program:	One year (FY 1991)
Program Description:	The Program will support continued growth-oriented macroeconomic sectoral and structural changes aimed at maintaining dynamic growth through increased exports and domestic market liberalization. This Trade and Investment Program will provide dollars to finance either the import of productive inputs or to make debt payments to international finance institutions (IFIs). Pesticides will not be procured with these funds without first doing an Environmental Assessment and having it approved by AID/W. Disbursement, made through a single cash transfer, will be conditioned on GOCR formulation of and commitment to a continued coherent macroeconomic program as an essential pre-condition for the success of any trade liberalization program, as well as for other policy improvements specifically designed to enhance international export competitiveness and to liberalize the domestic economy. Elements of this trade liberalization program will include strong reform measures on tariff reduction, import exonerations, industrial restructuring, and progress towards EAI participation. Any local currencies associated with the dollar grant will be jointly programmed with the GOCR, subject to sound monetization practices, to support activities aimed at export growth and public sector efficiency, including deficit reduction and reductions in the size of the public sector labor force.
Action:	Handbook 3, Chapter 2, Appendix 2D, Section 216.2(c)(2)(vi) states that "contributions to international, regional or National Organizations by the United States which are not for the purpose of carrying out specifically identifiable project or projects", are not subject to A.I.D.'s environmental procedures.

Based on A.I.D. regulations in Handbook 3, Chapter 2, the A.I.D. Mission to Costa Rica recommends that no further environmental study be undertaken for this PAAD and that a "Categorical Exclusion" be approved.

IE Prepared by:

Heriberto Rodríguez
General Engineer
USAID/Costa Rica

Concurrence:

Ronald F. Venezia
Mission Director
USAID/Costa Rica

Date:

April , 1991

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D C 20523

LAC-IEE-91-53

ENVIRONMENTAL THRESHOLD DECISION

Project Location	:	Costa Rica
Project Title	:	Trade and Investment Program
Project Number	:	515-0250
Funding	:	$24 Million (ESF)
Life of Project	:	One Year (FY 1991)
IEE Prepared by	:	Heriberto Rodriguez General Engineer, USAID/Costa Rica
Recommended Threshold Decision	:	Categorical Exclusion
Bureau Threshold Decision	:	Concur with Recommendation
Comments	:	Approval of a categorical exclusion is granted on the condition that the program agreement between the GOCR and A.I.D. has in it the following restrictions on the use of program funds: Under the program there will be neither (1) the procurement or use of pesticides, nor (2) support of activities or the procurement or use of materials or equipment for commercial timber harvesting in primary forests -- without first the LAC Bureau Environmental Oficer's approval of appropriate environmental assessments.
Copy to	:	Ronald F. Venezia, Director USAID/Costa Rica
Copy to	:	Heriberto Rodriguez, USAID/Costa Rica
Copy to	:	Wayne Williams, Central America REA
Copy to	:	Mark Silverman, LAC/DR/CEN

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LAC-IEE-91-53

Copy to : IEE File

John O Wilson Date JUN - 5 1991

John O. Wilson
Deputy Chief Environmental Officer
Bureau for Latin America
and the Caribbean

COSTA RICA

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable to the eligibility of countries to receive the following categories of assistance: (A) both Development Assistance and Economic Support Funds; (B) Development Assistance funds only; or (C) Economic Support Funds only

A. COUNTRY ELIGIBILITY CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUND ASSISTANCE

1. **Narcotics**

a. **Negative certification** (FY 1991 Appropriations Act Sec. 559(b)): Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

No.

b. **Positive certification** (FAA Sec. 481(h)). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly

N/A: Costa Rica is not a major illicit drug producing country or a major drug transit country.

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affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government):

(1) does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement?

Yes - Costa Rica is a signatory of 1988 Vienna Convention Against the Traffic in Drugs and Psychotropic Substances.

(2) has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (b) the vital national interests of the United States require the provision of such assistance?

N.A.

c. **Government Policy** (1986 Anti-Drug Abuse Act of 1986 Sec. 2013(b)). (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one: (a) which, as a matter of government policy, encourages or facilitates the production

N/A.

or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

2. **Indebtedness to U.S. citizens** (FAA Sec. 620(c): If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where: (a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?

We are not aware of any debts the Government of Costa Rica (GOCR) owes to any U.S. citizen for goods and services that meet the criteria set forth in this section.

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

In the 1970s the Government of Costa Rica did appropriate property belonging to nine American citizens without paying adequate compensation.

Six of the seven remaining cases have agreed to enter binding arbitration. Discussions are underway for the seventh case.

4. **Communist countries** (FAA Secs. 620(a), 620(f), 620D; FY 1991 Appropriations Act Secs. 512, 545): Is recipient country a Communist country? If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable

No.

restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, Iran or Syria? Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan?

5. **Mob Action** (FAA Sec. 620(j)): Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property?

No.

6. **OPIC Investment Guaranty** (FAA Sec. 620(l)): Has the country failed to enter into an investment guaranty agreement with OPIC?

No.

7. **Seizure of U.S. Fishing Vessels** (FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5): (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made?

No.

8. **Loan Default** (FAA Sec. 620(q); FY 1991 Appropriations Act Sec. 518 (Brooke Amendment)): (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds?

No.

9. **Military Equipment** (FAA Sec. 620(s)): If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment?

Costa Rica does not have military forces.

(Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

10. **Diplomatic Relations with U.S.** (FAA Sec. 620(t)): Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? — No.

11. **U.N. Obligations** (FAA Sec. 620(u)): What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) — No.

12. **International Terrorism**

a. **Sanctuary and support** (FY 1991 Appropriations Act Sec. 556; FAA Sec. 620A): Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? — No.

b. **Airport Security** (ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? — No.

13. **Discrimination** (FAA Sec. 666(b)): Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

14. **Nuclear Technology** (FAA Secs. 669, 670): Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

No.

15. **Algiers Meeting** (ISDCA of 1981, Sec. 720): Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.)

Costa Rica was not represented.

16. **Military Coup** (FY 1991 Appropriations Act Sec. 513): Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance?

No.

17. **Refugee Cooperation** (FY 1991 Appropriations Act Sec. 539): Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin?

Yes.

18. **Exploitation of Children** (FY 1991 Appropriations Act Sec. 599D, amending FAA Sec. 116): Does the recipient government fail to take appropriate and adequate measures, within its means, to protect children from exploitation, abuse or forced conscription into military or paramilitary services?

No.

B. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO DEVELOPMENT ASSISTANCE ("DA")

1. **Human Rights Violations** (FAA Sec. 116): Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

N.A.

2. **Abortions** (FY 1991 Appropriations Act Sec. 535): Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?

N.A.

C. COUNTRY ELIGIBILITY CRITERIA APPLICABLE ONLY TO ECONOMIC SUPPORT FUNDS ("ESF")

Human Rights Violations (FAA Sec. 502B): Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest?	No.

5C(2) - ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to the assistance resources themselves, rather than to the eligibility of a country to receive assistance. This section is divided into three parts. Part A includes criteria applicable to both Development Assistance and Economic Support Fund resources. Part B includes criteria applicable only to Development Assistance resources. Part C includes criteria applicable only to Economic Support Funds.

CROSS REFERENCE: IS COUNTRY CHECKLIST UP TO DATE?

A. CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS

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

The assistance will increase international trade, foster private initiative and competition, and improve the efficiency of industry, agriculture and commerce.

2. **U.S. Private Trade and Investment** (FAA Sec. 601(b)): Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

Via this assistance, U.S. markets for Costa Rican products will be expanded and U.S. private sector investment and trade in Costa Rica will be enhanced.

3. **Congressional Notification**

a. **General requirement** (FY 1991 Appropriations Act Secs. 523 and 591; FAA Sec. 634A): If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the notification requirement has been waived because of substantial risk to human health or welfare)?

Yes.

b. **Notice of new account obligation** (FY 1991 Appropriations Act Sec. 514): If funds are being obligated under an appropriation account to which they were not appropriated, has the President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

N/A.

c. **Cash transfers and nonproject sector assistance** (FY 1991 Appropriations Act Sec. 575(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic poolicy reforms to be promoted?

Yes.

4. **Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of $500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A.

5. **Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of $500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

N/A.

6. **Water Resources** (FAA Sec. 611(b); FY 1991 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)

N/A.

7. **Cash Transfer and Sector Assistance** (FY 1991 Appropriations Act Sec. 575(b)): Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

Yes.

8. **Capital Assistance** (FAA Sec. 611(e)): If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

N/A.

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

(a) Yes.
(b) Yes.
(c) Yes.
(d) Yes.
(e) Yes.
(f) Yes.

The trade and investment focus of this program should directly impact all of these areas.

10. **U.S. Private Trade** (FAA Sec. 601(b)): Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The program will directly provide dollars for the import of raw materials, intermediate goods, spare parts, and capital goods from the U.S. It will also strengthen Costa Rica's economy and increase its ability to absorb U.S. goods, services and investment.

11. **Local Currencies**

a. **Recipient Contributions** (FAA Secs. 612(b), 636(h)): Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The GOCR provides local currency support for A.I.D.-financed projects and the cost of any contractual services related to such projects.

b. **U.S.-Owned Currency** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

c. **Separate Account** (FY 1991 Appropriations Act Sec. 575). If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

(a) Yes.
(b) Yes.
(c) Yes.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

Yes.

(3) Has A.I.D. taken all appropriate steps to ensure that the equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

Yes.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government? Yes.

12. **Trade Restrictions**

a. **Surplus Commodities** (FY 1991 Appropriations Act Sec. 521(a)): If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A.

b. **Textiles (Lautenberg Amendment)** (FY 1991 Appropriations Act Sec. 521(c)): Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel? No.

13. **Tropical Forests** (FY 1991 Appropriations Act Sec. 533(c)(3)): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas? No.

14. **Sahel Accounting** (FAA Sec. 121(d)): If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (either dollars or local currency generated therefrom)?

N/A.

15. **PVO Assistance**

a. **Auditing and registration** (FY 1991 Appropriations Act Sec. 537): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

N/A.

b. **Funding sources** (FY 1991 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

N/A.

16. **Project Agreement Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

This agreement is less than $25 million and not subject to this requirement

17. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the

N/A.

extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

18. **Women in Development** (FY 1991 Appropriations Act, Title II, under heading "Women in Development"): Will assistance be designed so that the percentage of women participants will be demonstrably increased?

No. This is a cash transfer program.

19. **Regional and Multilateral Assistance** (FAA Sec. 209): Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

No.

20. **Abortions** (FY 1991 Appropriations Act, Title II, under heading "Population, DA," and Sec. 525):

a. Will assistance be made available to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

No.

b. Will any funds be used to lobby for abortion?

No.

21. **Cooperatives** (FAA Sec. 111): Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

No.

22. **U.S.-Owned Foreign Currencies**

a. **Use of currencies** (FAA Secs. 612(b), 636(h); FY 1991 Appropriations Act Secs. 507, 509): Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

None available.

b. **Release of currencies** (FAA Sec. 612(d)): Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.

23. **Procurement**

a. **Small business** (FAA Sec. 602(a)): Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

N/A (a-1).

b. **U.S. procurement** (FAA Sec. 604(a)): Will all procurement be from the U.S. except as otherwise determined by the President or determined under delegation from him?

c. **Marine insurance** (FAA Sec. 604(d)): If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?

d. **Non-U.S. agricultural procurement** (FAA Sec. 604(e)): If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)

e. **Construction or engineering services** (FAA Sec. 604(g)): Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.)

f. **Cargo preference shipping** (FAA Sec. 603)): Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates?

g. **Technical assistance** (FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

h. **U.S. air carriers** (International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

i. **Termination for convenience of U.S. Government** (FY 1991 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

j. **Consulting services** (FY 1991 Appropriations Act Sec. 524): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

k. **Metric conversion** (Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

l. **Competitive Selection Procedures** (FAA Sec. 601(e)): Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

24. **Construction**

a. **Capital project** (FAA Sec. 601(d)): If capital (e.g., construction) project, will U.S. engineering and professional services be used?

N/A. No construction is contemplated under this program.

b. **Construction contract** (FAA Sec. 611(c)): If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

qv

c. **Large projects, Congressional approval** (FAA Sec. 620(k)): If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Congressional Presentation), or does assistance have the express approval of Congress?

25. **U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? N/A.

26. **Communist Assistance** (FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? Yes.

27. **Narcotics**

a. **Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated? N/A.

b. **Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance? Yes.

28. **Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President? — Yes.

29. **Police and Prisons** (FAA Sec. 660): Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

30. **CIA Activities** (FAA Sec. 662): Will assistance preclude use of financing for CIA activities? — Yes.

31. **Motor Vehicles** (FAA Sec. 636(i)): Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes.

32. **Military Personnel** (FY 1991 Appropriations Act Sec. 503): Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? — Yes.

33. **Payment of U.N. Assessments** (FY 1991 Appropriations Act Sec. 505): Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? — Yes.

34. **Multilateral Organization Lending** (FY 1991 Appropriations Act Sec. 506): Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? — Yes.

35. **Export of Nuclear Resources** (FY 1991 Appropriations Act Sec. 510): Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? — Yes.

36. **Repression of Population** (FY 1991 Appropriations Act Sec. 511): Will assistance preclude use of financing for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes.

37. **Publicity or Propoganda** (FY 1991 Appropriations Act Sec. 516): Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress? — No.

38. **Marine Insurance** (FY 1991 Appropriations Act Sec. 563): Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate? — N/A.

39. **Exchange for Prohibited Act** (FY 1991 Appropriations Act Sec. 569): Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law? — No.

C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY

1. **Economic and Political Stability** (FAA Sec. 531(a)): Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?	Yes. Yes.
2. **Military Purposes** (FAA Sec. 531(e)): Will this assistance be used for military or paramilitary purposes?	No.
3. **Commodity Grants/Separate Accounts** (FAA Sec. 609): If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?	N/A.
4. **Generation and Use of Local Currencies** (FAA Sec. 531(d)): Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?	Yes; No. (Note: Deputy GC opinion dated March 8, 1991 found that Section 531(d) was superceded by Section 575(a) of the FAA)
5. **Cash Transfer Requirements** (FY 1991 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 575(b)). If assistance is in the form of a cash transfer:	
a. **Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?	Yes

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b. **Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

Yes.

c. **U.S. Government use of local currencies:** Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available?

Yes. However, A.I.D. has agreed that local currencies will be programmed in a way that does not require monetization.

d. **Congressional notice:** Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes.

Clearance: GC/LAC, T. Geiger KH w/revisions date 6/7

DRAFTER:GC/LP:EHonnold:4/11/91:2169J