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USAID/COSTA RICA

FY 1994-1995 ACTION PLAN

February, 1993

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OVERVIEW

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TOWARDS A NEW US-COSTA RICAN DEVELOPMENT RELATIONSHIP

This Action Plan finds the A.I.D. program in Costa Rica at a familiar crossroads.

FY93 ended an era of extraordinary balance of payments assistance totalling $1.3 billion since 1982, when Costa Rica entered bankruptcy. Today, in large measure due to this critical support, Costa Rica stands poised on the threshold of entering Middle Income status.

Lest we presume too much, however, this event echos similar refrains of the late 1960's (when Costa Rica had the highest growth rates in Latin America) and again in the late 1970's just before the economic and political shock waves of the 1980's. At each of these junctures, A.I.D. has taken steps to seek a phase-down and conversion of US development programs into something resembling the offices in Mexico and Brazil.

Thus, with a strong sense of "deja vu", we posit that Costa Rica's return to self-sustaining growth again sets the stage for achieving this now three-decade old objective - but this time with a new twist. In a separate document, USAID/CR is proposing the establishment of a US/Costa Rican Foundation as an alternative approach to our previous traditional phase-down responses.1/

The Action Plan period of 1994-95 involves the management of the present pipeline of $57 million involving 23 projects with a mortgage of $18.5 million (as of the end of FY 92). In addition, there is approximately $275 million in host country owned local currency which entails varying degrees of A.I.D. involvement, vulnerability and oversight. Under present conditions, USAID/CR will have a declining but active portfolio until 1996, with approximately 10 USDH and 78 local support staff.

A collateral issue is the need for a decision on the use of the rent-free USAID building in Costa Rica. This state-of-the-art building complex meets all USG security standards and currently has excess space. A.I.D./W is undertaking a survey with other A.I.D. and USG offices/agencies to determine other potential uses. OFDA, IRM and ROCAP regional offices are presently housed here. USDA/Aphis screwworm personnel have expressed interest in moving into the complex. ROCAP and RIG are potential candidates. Finally, LAC and FM are exploring the creation of a regional financial/controller/ services center in San Jose. We strongly urge that some forward planning begin immediately, as the need for State and Embassy/San Jose concurrence is critical and problemmatical if their legitimate concerns on proper support levels are not taken into account early on.

1/ As this approach lacks any formal sanction or approval from Washington, and indeed its adoption and execution assumes policy, organizational and financial steps which may make it impossible to achieve in the immediate to near future, this Action Plan is written under a scenario which does not include this option. Hopefully, a decision on this issue will precede Action Plan Review.

Per AID/W general guidance, DA levels in this Action Plan are straight-lined at $6.05 million per year (rather than our request level of $8 million). The lower figure allows for full, albeit longer, implementation of the current mortgage, but it is more important to note that, our request level is closer to a figure which sets the stage for the establishment of a new Foundation, if approved.

In this regard, assuming availability of some of the HCOLC mentioned above, we estimate that a slight increase of the annual DA levels to $10 million (more or less what another MDC country, Panama, now receives) for a period of five or six years would successfully close down the current project portfolio and, concurrently, establish an endowment of $100 million, composed more or less equally of DA and HCOLC. FY93 FAA legislation allows DA funds to be dedicated to this purpose.

In spite of the severe budget reductions overall that are expected in the 150 account, we believe this is a doable and appropriate level of effort to cap 50 years of development assistance to a country which epitomizes the values and ideals we wish their Latin neighbors would emulate. To some degree, the proposed foundation may also serve as a model for similar attempts elsewhere in the region.

STRATEGY REVIEW

Two over-arching policy objectives have guided USAID/CR for the past two and one-half years since the elections in Nicaragua signaled an end to the Congressionally led ESF earmarks for Costa Rica. Since that time, ESF levels plummeted from $90 million in FY90 to zero in FY93. The challenge has been to insure that as our ESF resources disappeared, Costa Rica's still nascent reform efforts continued and deepened under pending IBRD and IDB structural programs, not only to protect the considerable treasure invested to date, but also to return Costa Rica to its normal sources of new investment and growth from private flows.

Our first policy objective, much akin to a relay race where A.I.D. has run only a set part of the race, was to seek to "pass the baton". We specifically designed the past two year's ESF conditionality and technical assistance efforts to position Costa Rica to be eligible for IBRD and IDB resources associated with Enterprise for the Americas benefits of trade, investment and debt reduction. Working in close cooperation with the IFIs, who have on several occasions noted and appreciated A.I.D.'s "John the Baptist" role, we have targetted and achieved significant reforms in tariffs, price controls, central bank activities, pension systems, reductions in public employee rolls, customs, foreign exchange liberalization, tax rationalization and privatization. In each of these areas, A.I.D.'s presence, policy dialogue, specialized technical assistance and conditionality set the stage for negotiation of the major reform loans now ready to be considered by the IBRD and IDB Boards. We will continue to dedicate funds and give technical assistance to help Costa Rica meet the conditions for these loans, each of which involves very extensive and complex conditionality. Much of our effort for the near future will be directed towards assisting the GOCR to develop the policy analyses, studies and legislation necessary to fulfill the conditions. With approval of the two loans, it will be possible for A.I.D. to return to more traditional technical assistance programs with the knowledge that these loans constitute a continuing agenda and impetus for structural reforms necessary to insert Costa Rica into the world economy.

Our second policy objective is characterized as the "soft landing" of a program which spiked in 1985 to over $200 million per year, and which has left a legacy of institutions and programs which have transformed important aspects of Costa Rican economic and social sectors. There exists a series of public and private institutions in higher and primary education, social welfare, housing, public policy, privatization, microenterprise, state reform, investment and export promotion, banking and finance, etc., capitalized by A.I.D. and the GOCR using ESF-generated HCOLC resources, which are making major contributions to Costa Rican reform efforts. As we disengage from the ESF "go-go" era, we face a continuing responsibility to do so in a manner which seeks the sustainability or orderly termination of these institutions, and the transfer of any residual A.I.D. involvement or monitoring to other actors. In addition, there is need to oversee a still vibrant and problematic DA portfolio whose three strategic objectives remain highly relevant to Costa Rica's growth. In many ways, this "soft landing" is the major strategic policy objective for the next two years, hopefully leading towards a new US/Costa Rican development relationship.

<u>STRATEGIC OBJECTIVES STILL VALID</u>

This Action Plan continues to show three strategic objectives of the USAID/CR program as constituting our core program in the 1994-95 period. The intensity of our involvement, however, will be different for each, with the first two entering a consolidation stage, and the third remaining a "growth" area for the forseeable future.

For Strategic Objective #1, Improving Economic Competitiveness, we see continued support to Costa Rica's participation in the Enterprise for the Americas Initiative, although now in a supporting technical assistance role to the main instruments of an IBRD Structural Adjustment (SAL III) and IDB Investment Sector (ISL) loans, which should be in full execution during this timeframe. The new initiative which we are proposing in industrial development for 1994 is designed specifically to consolidate our activities in this sector. Continuing efforts will include work on the legal and regulatory obstacles to trade, and bringing to a logical conclusion our extensive involvement in the non-traditional export area. Policy dialogue will focus on continuing reform of the formal and informal financial sector through the Financial Services Project, and the production of Costa Rica's next generation of professional economists through the Training for Development project.

For Strategic Objective #2, A More Streamlined, Efficient and Responsive Government, virtually every reform effort that we seek has been included in the IBRD SAL III loan. However, the USAID/CR program will continue to play an important supporting role through technical assistance across the entire range of activities through the PATS project (which supports the legislative reform activity and the SIGMA public administration contract, as well as public diplomacy seminars and specialized training). Beyond the amendment to the Justice Improvement project (which consolidates the gains made to date in the Sala IV Court and extends the administrative reform effort to the Supreme Court's other three Salas), no new starts are contemplated in this area. We note, however, that the new U.S. Administration has set democracy-building and human rights as major objectives, and Costa Rica's obvious strengths in this area may offer new opportunities for cooperation not envisioned in this document.

Strategic Objective #3, Maintenance of Natural Forest Habitat, is the only area where we clearly forsee continuing involvement and propose new project activities. This recognizes Costa Rica's unique eco-system and bio-diversity, plus the wide range of environmental groups, both national and international that use Costa Rica as a laboratory and training ground. Since Costa Rica serves as a model for environmental program and policies, we assume that there will be a continuing interest on the part of A.I.D. in remaining involved in this area.

CONCLUSION

The Action Plan Review process this year asks Washington to set the sign posts for our future actions. As noted, we are in a critical stage. To abuse the metaphor of the "soft landing ", it is important that as we approach the beginning of a new stage of our relationship we determine the outcome rather than go on auto pilot or worse. This is our third attempt to graduate Costa Rica. We trust that this document will serve as the basis for an orderly transition to the establishment of a new relationship, on this our third try.

Macroeconomic Performance, 1982-1992

The Costa Rican economy has been, until recent years, inward looking, conservative and to some degree separate from its Central American neighbors. State intervention has been the norm for about 40 years. The economic collapse of the early 80's prompted a series of market oriented reforms in the financial, export and public enterprise areas, which have been continued and significantly deepened by the Calderón administration. There is not a wide consensus, à la Mexico or Chile, to depart sharply from a model viewed by the public at large as an approach which has, socially at least, served the country well. For the nineties, the biggest challenge facing Costa Rica is to continue to create, introduce, and maintain the internal structural reforms necessary for the country to become even more competitive in the world economy. Costa Rica's continued economic reform and progress should remain U.S. objectives in the region.

We assume that the Enterprise for the Americas Initiative (EAI) will remain in place under the new U.S. administration. Costa Rica's economic reforms, if maintained and expanded, should be sufficient to put the country among those which will receive debt relief during 1994 under the provisions of the EAI.

Costa Rica recovered from the severe regional recession that so adversely affected the war-torn isthmus beginning in 1978. Economic growth rates, which were negative in the early 1980s, recovered and averaged 4.5 percent from 1985 through 1990 before slipping to two percent during 1991 under the weight of restrictive fiscal and monetary policy and the economic downturn in the U.S. Merchandise trade has grown sharply since 1986, particularly nontraditonal exports, which were a central focus of the U.S. economic assistance program throughout the 1980s. Exports grew from $872 million total in 1983 to over $1.2 billion in 1988 to around $1.5 billion in 1992. Seen against this backdrop, Costa Rica's macroeconomic performance during 1982-1992, has been highly successful. Gross domestic investment has averaged a higher percent of GDP than in any other country in the Western Hemisphere. The rate of growth in GDP has been exceeded only by Canada, Chile, Colombia, and the United States.

Nevertheless, there are a number of important caveats to this observation. First, much of the GDP growth of the 1980s was sustained by large grants and loans from the U.S. and IBRD that were conditioned on economic policy reforms (EPRs), largely in the external sector. Second, despite U.S./IFI conditionality, the GOCR continued to follow a multitude of economic policies/practices which retarded economic growth. Third, the ratio of output growth to investment has been much below what could have been achieved in the absence of constraining GOCR economic policies/practices. Costa Rica's ratio (0.6) compares very unfavorably with that of East Asia, for example (0.7-2.0).

Since significant ESR flows to Costa Rica began in the early 1980s, totalling more than $1.3 billion, A.I.D.'s role has been twofold. On the one hand, it provided cash grants and loans equalling 3-5 percent of Costa Rica's GDP during the 1980 (since 1989, these cash grants and loans have dropped to under a quarter of a percent of GDP). A.I.D.'s other role, as mentor and policy reform advocate, was instrumental in helping the policy reform process get started during the 1980s. During the past two years in particular, A.I.D.'s activities have produced some major breakthroughs in terms of the adoption of EPRs. Advice, admonitions, and technical assistance have brought about numerous and developmentally significant reforms.

The large resource transfers of the 1980s supported the return to macroeconomic stability and underwrote the transformation from an economy based on import-substitution to one more oriented to production for the world market. Still, the policy environment remained a continuing barrier to rapid growth. The EPRs of 1990-1992, although backed by decreasing levels of resource transfers, have been accomplished due to the tenacity of a reform minded government. The reforms have steadily improved Costa Rica's capacity for rapid self-sustained growth based not on outside help, but on domestic initiatives.

There was admittedly a propitious environment for such reforms when the Calderon administration took office in 1990. Policy makers quickly recognized that they were faced with a lack of foreign exchange reserves, an unsustainable level of public spending and cumbersome economic policies and practices. A.I.D.'s presence here and the ready access we have enjoyed and cultivated with the GOCR over the years provided us with a unique position from which to push policy reform. Along with a fortuitous congruence of agreement with this GOCR administration on economic reform measures, and in spite of a diminution of ESF funding leverage over the past two years, the USAID Mission has been able to greatly influence both economic policy thinking and practice. This has taken place in large measure through our ESF conditionality, but also as a result of DA resources which have funded a continuous flow of TA from important economic policy thinkers and provided the basis for a number of seminars on a range of topics from price controls to tariff reduction. Local currency resources have allowed the actual implementation of public sector employment reductions and other important reform measures (customs and budget), thereby assisting in diminishing the public sector deficit and reducing its deleterious effect on private sector investment.

GOCR leadership is now clearly committed to reforms which will, in our judgment, accelerate an increase in output per person - with the great majority of Costa Ricans sharing in that increase.

A.I.D.'s accomplishments include major contributions in support of GOCR actions to:

- completely liberalize a once tightly controlled foreign exchange market;
- reduce and narrow once diverse and high tariff ranges;
- abolish once common quantitive import restrictions;
- eliminate a multitude of tax exoneration privileges, including those enjoyed by parastatal enterprises and exporters of nontraditional products;
- reduce price controls affecting everything in January 1992, with the prospect of just 9 categories in December 1993;
- consolidate 16 separate government pension systems into one program and reduce the GOCR share of pension cost by 10%.
- privatize 38 of the 42 parastatal enterprises of the state holding company CODESA;
- open financial markets to the growing role of private banks;
- begin reorganization of GOCR ministries and offices, such as the Customs Service, to increase their efficiency in delivering useful services; and
- reduce public sector employment by almost 12,000 persons, as of December,1992.

A notable result of the decade of reforms is extensive diversification and increased production of exports. A very significant effect of this is that the 1991-92 government layoffs and the recent coffee price decrease, which would once have been disastrous, were offset by real growth elsewhere. Rather than declining during 1992, GDP rose over 5%, and unemployment dropped to a near record low of 4.1%; and, instead of expanding employment in government jobs with productivity well below costs, employment is up in jobs meeting the tests of competitive markets.

Although the improvements in macroeconomic indicators in general provide reason for optimism, there are some areas of concern. The Costa Rican balance of payments developed four outstanding features during 1992: a 29 percent increase ($240m) in non-traditional exports (based on September data), a 110 percent increase ($205m) in net receipts from tourism (i.e., foreign tourists' expenditures in Costa Rica minus Costa Rican tourists' expenditures abroad, also estimated from September data), a 31 percent increase ($590m) in merchandise imports, and a 28 percent increase ($80m) in recorded private capital inflows, with perhaps another $50m increase in unrecorded private inflows. The increase in merchandise imports produced a $600 million deficit in the merchandise account (including industries).

The deficit in the merchandise account commands attention. It has not been a problem to date because, unlike the 1989-1990 episode when foreign exchange reserves were exhausted to finance an import boom, this time reserves rose over 70 percent (by $150 million using IMF criteria; more by Central Bank criteria), and the colon depreciated less than 2 percent. The current deficit will lead to a long, or even medium term problem to the extent that imports are being financed by gypsy capital that will leave when interest rates elsewhere rise relative to Costa Rica's. Unfortunately, there are no good estimates of the extent of that potential problem. On the encouraging side, clearly the capital inflow is not being financed as it was during 1978-1980, by large GOCR borrowing from foreign banks and governments. Also encouraging is the fact that much of the inflow is for foreign direct investment in Costa Rican real estate and production. Nevertheless, a slowdown in net private capital inflows might, by changing expectations sharply, result in a rapid acceleration of the depreciation of the colon.

One other aspect of Costa Rica's balance of payments is its continued heavy dependence on official capital. Official capital disbursements were $346m during 1992; amortization on official debt was $321m. That pattern is expected to continue at least through 1994.

Under the EAI, Costa Rica may, with qualifying trade and investment policies, become eligible for some debt relief during 1994. Together, outstanding DA, ESF, and PL-480 debts exceed 400 million dollars, with annual debt service of some $15m and rising. So, the effects of EAI debt relief could be significant, even in the short run.

The prospects for the future are that the financial leverage and support needed for policy conditionality will be left to the IBRD and IDB, but the actual implementation will continue to be supported by a major input provided through A.I.D. technical assistance. Perhaps most heartening to the USAID Mission is the fact that the multilaterals have adopted conditionality which originated in A.I.D. discussions with the GOCR in the early 1990s. This is most evident in the policy measures now required for SAL III and the ISL.

Unquestionably, the need for continued economic policy reform remains great. In a country where total consensus for change is considered a virtue, most of this democracy's rigid economic controls of 1980 were still in place in 1989 and only beginning to yield slowly to change. Policy changes will continue to be pushed through the implementation of some 150 reform conditions in SAL III, and by dozens of reform conditions in the ISL of the IDB and the Agricultural Sector Loan of the IBRD.

A.I.D., closely cooperating with GOCR Ministries, Central Bank, and regulatory agencies, as well as with the IDB and IBRD, will remain a principal advisory support for continued reform.

SECTION I: STATUS OF STRATEGIC OBJECTIVES

Strategic Objective #1: Improved Economic Competitiveness

I. A. Refinements or Changes in Strategic Objective and/or Program Outputs 1/

The title of this Strategic Objective has been changed from Improving the Business Climate to better reflect the aim of the country and of the USAID to improve Costa Rica's competitive position in international markets and to allow its formerly highly-protected domestic industries to compete with imports in the internal market as the tariff wall comes down.

One of the critical Program Outputs - the liberalization of foreign exchange - has been accomplished. In December 1992 the Costa Rican Supreme Court threw out a law providing that contracts specifying obligations in foreign currency be paid at the "official" rate of 20 colones to the dollar and, thus, effectively removed the last remaining barrier to the use of foreign exchange. This final step was the culmination of more than two years of policy dialogue and USAID-financed technical assistance with the GOCR and the Central Bank.

A second Program Output - macroeconomic stability- has been redefined as the base and backdrop to the work of structural adjustment and economic growth programs, but not as a specific Program Output of the USAID portfolio. We will, of course, continue to support GOCR efforts, when appropriate, and to report on macroeconomic results.

The remaining Program Outputs - trade liberalization and the improvement of financial services remain unchanged. As the scope of the program changes from an emphasis on wide-ranging policy reform tied to ESF conditionality to a tightened focus on project interventions and very targeted policy support, the trade liberalization output will be redefined as trade development.

I. B. Strategic Objective Performance

Performance against the indicators at the Strategic Objective level was very positive for 1992: the inflation rate was held to 17.7 percent, well under the 25 percent rate reached in 1991. The 1993 target is 12 percent, still too high, but probably realistic in a pre-election year. On the second indicator, the level of net international reserves rose to approximately $360 million, well above the targeted $259 million and the 1991 level of $209 million.

A very positive performance was also turned in by the nontraditional export sector. This area of continued emphasis in the USAID program grew in 1992 by 29 percent over the 1991 levels, as nontraditional product exports earned a total of some $974 million. Exports from maquila industries earned $112 million, and tourism, which increased 110 percent last year over its 1991 level, netted a total of some $388 million.

With regard to the third performance indicator, arrears on foreign debt service were roughly the same $60 million at the end of 1992 as they were at the beginning. We expect

1/ This Action Plan covers a transition period from the large programs of the eighties to the more modest programs of the nineties. The accompanying outputs and indicators reflect this transition - these narratives report on 1992 results for some indicators and outputs that will be revised next year.

that the GOCR Letter of Intent to be submitted to the IMF will commit the country to eliminating arrears by June 30 of this year and to remaining current on interest and amortization for the balance of 1993. Behind the Letter of Intent would be an assumption that the Paris Club will provide some $55 million in rescheduling to assist clearance of arrears.

1. Trade Liberalization

a. Tariff Reductions. In addition to the lower inflation rate, the freeing of the foreign exchange regime, and the approximate $150 million increase in foreign exchange reserves, the trade regime has been significantly improved and investor confidence buoyed by an acceleration of tariff reductions which lowered the ceiling from 33.3 to 27.6 percent, and by an-accross-the-board abolition of most tariff and other tax exonerations. All quantitative import restrictions, have been removed with the result that, aside from some problems with customs administration which are being addressed under Strategic Objective Number 2, the current tariff structure is an accurate measure of trade barriers. The reduction in the tariff ceiling satisfied the condition precedent to the 1992 ESF agreement and met the tariff reduction goal established for last year.

By March 31, 1993, all tariffs will be within the 10 to 20 percent range, with the exception of textiles, clothing and leather products. These three groups of articles will be dropped into the same range by the end of 1994.

These ultimate stages in tariff reduction have led to increasing unease for the heretofore protected domestic industries. The planned FY 94 new start for this sector, Industrial Development, will address technical and policy changes necessary for this adjustment in at least three industrial sectors.

b. Reduction of Price Controls and Price Fixing. Cutbacks on price controls on virtually every product sold at wholesale or retail provided a further boost to liberalization of trade.

A presidential decree, issued in late 1992, lifted markups from over 100 specific product categories and abolished the maximum 30% markup on wholesale and retail prices of a category called "all other" iterms, thereby removing the controls from the majority of sales. Some categories remained untouched, but they are limited to items purchased mostly by the poor. These reductions met the A.I.D. ESF conditionality for 1992 and provisions of the IBRD's SAL III.

Additional presidential decrees ended price fixing on 5 out of 16 categories of products, including rice, corn and beans. The same decree also freed importers and exporters of those items from licensing requirements. Further elimination of fixed prices is expected in 1993 on 8 of the remaining 11 product categories still controlled, leaving only sugar, milk and fat from palm oil (manteca), all of which are processed by oligopolies, still subject to price setting.

As part of its successful efforts to secure a reduction in price fixing and price control, the USAID Mission provided technical assistance to the Ministry of Economy to develop a draft law on the codification of price decontrol, consumer protection and antritrust measures. The legislation is currently before the National Assembly, and we are providing Assembly members and GOCR staff with copies of the analyses. In addition to the price control provisions, the GOCR continues to regulate public utility prices in six areas: electricity, telephone service, water, gasoline, bus service, and taxi service.

2. Improved and Expanded Financial Services. The indicators established for gauging improvements and expansion of financial services are: improved supervision of the banking system; a Lender of Last Resort facility established for private banks; increased employment in micro enterprises; an increase in private bank loans as a share of total bank loans; and a study completed on reducing costs in the financial sector.

Continual policy dialogue was conducted through the Financial Services Project in support of banking reform, particularly on improved supervision of the system. These efforts produced the submission to the Costa Rican Congress of a new law for cooperative credit union financial oversight and audits, and the creation of a Lender of Last Resort Fund in the Central Bank. These topics were publicly debated in USAID-financed seminars in order to ensure public understanding and acceptance before legislation went to the National Assembly for action.

A USAID-financed analysis of Costa Rica's financial sector has prompted for the first time in over a decade, public and political examination of the need for a nationalized banking system.

USAID/CR is continuing discussions with the GOCR to develop a sectoral policy for microenterprise lending. ACORDE, a second-story PVO lender to microenterprise, is adopting a new legal structure which will permit it to mobilize and expand its asset base. Several commercial banks are considering an extension of their services into rural areas where microenterprises would be the primary clients.

The 1992 target of A.I.D.-financed loans by PVOs to microenterprises was exceeded slightly and the number of jobs created in microenterprises rose from 1,500 in 1991 to over 2,600 last year.

Human Resources Requirements. More than 26,000 managers and technicians have received training to improve their skills and update technical information under the Training for Private Sector Development project, but the number is still not sufficient to manage increasingly more complex and competitive industrial and commercial operations. As formerly-protected industries are forced to become more competitive internationally and domestically and new industries are established, workforce requirements expand tremendously both in numbers and degree of sophistication. A 1992 amendment to the Training for Private Sector Development project will continue training for managers and technical staff through 1994, concentrating on industrial and agricultural management for non-traditional exports, tourism, and domestic industries which need to become competitive.

Human resources development of this type should remain a USAID priority as long as there is a USAID Mission presence, and as a continuing USG priority thereafter.

Policy Dialogue. The USAID Mission provided substantial input and analysis for the financial sector conditionality contained in the IDB Investment Sector Loan (ISL) proposal. The IBRD SAL III loan conditionality, in turn, reflects all of the financial sector conditions set out in the ISL. Both of these loans have been negotiated and are expected to be submitted to their respective Boards in the first quarter of this year. The policy agenda of the GOCR will be filled with the measures required to meet the conditions of the two Banks for tax reform, further privatization, institutional reorganization, changes in the trade regime, improvements in export mechanisms and a myriad of other adjustments and reforms.

As a result, one of the most important components of USAID assistance for the next several years will be technical analysis and policy dialogue, advice and encouragement to the GOCR on the whole spectrum of legislative, institutional and structural change needed to meet the requirements of the IMF and the conditions of the two proposed IFI loans. If the GOCR can successfully address those conditions, there is little doubt that the country would be ready to participate fully in the EAI.

I.C. Monitoring and Evaluation Status and Plans. Project portfolios and management responsibilities have been redistributed among USAID Divisions according to Strategic Objectives, facilitating a constant review and examination of progress. Indicators are tracked quarterly by the Program and Project Development Office, with formal semiannual USAID Mission reviews scheduled for January and June.

Activities directed to this Strategic Objective are managed primarily by the Private Sector Office, with backup from the Economic Analysis Office. In addition to regular management reviews, these two offices maintain a full schedule of evaluations and studies, including a complete financial sector review in 1992, and a planned trade promotion sector evaluation in 1993.

TABLE 1: STRATEGIC OBJECTIVE PERFORMANCE

Costa Rica				
STRATEGIC OBJECTIVE NO. 1 Increased economic competitiveness				
Indicator: Nontraditional exports as % of merchandise exports				
Unit: Percent		Year	Planned	Actual
Source: Central Bank	Baseline	1991	----	53.3
Comments:		1992	----	57.9
		1993	61	***
		1994	64	***
		1995	66	***
	Target	1996	68	***
		1997		
Indicator: Inflation rate				
Unit: Percentage change (CPI), 31 Dec. to 31 Dec.		Year	Planned	Actual
Source: Central Bank	Baseline	1991	----	25
Comments:		1992	18	17.5
		1993	12	***
		1994	8	***
		1995	5	***
		1996	3	***
	Target	1997	3	***

Indicator: Level of net international reserves				
Unit: U.S. dollars		Year	Planned	Actual
Source: Central Bank	Baseline	1990	——	-307
Comments: According to IMF definition		1991	209	25
		1992	259	360
	Target	1993	490	***
		1994		
		1995		
		1996		
		1997		

Indicator: Level of non-rescheduled arrears				
Unit: U.S. dollars (millions)		Year	Planned	Actual
Source: Central Bank	Baseline	1990	——	275
Comments:		1991	62	60
		1992	11	63.6
	Target	1993	0	***
		1994		
		1995		
		1996		
		1997		

STRATEGIC OBJECTIVE NO. 1 Increased economic competitiveness				
PROGRAM OUTPUT NO. 1.1 Trade development				
Indicator: Import tariff range				
Unit: Percent		Year	Planned	Actual
Source: Ministry of Economy	Baseline	1991	------	0-40
Comments: Three items (textiles, clothing and shoes) will not be included in the full tariff reduction until 1994.		1992	5-27	5-27
		1993	10-20	***
	Target	1994	10-20	***
		1995		
		1996		
		1997		

Indicator: New exports as result of USAID programs				
Unit: Millions of dollars		Year	Planned	Actual
Source: USAID database on credit projects FUNDEX/CINDE reports and CINDE forecasts	Baseline	1990	269	248
Comments: Forecast prepared until 1966, since the Mission expects to disengage from export promotion activities after that year.		1991	198	228
		1992	232	***
		1993	254	***
		1994	267	***
	Target	1995	278	***
		1996		

Indicator: Items subject to price controls				
Unit: Number of items		Year	Planned	Actual
Source: Ministry of Economy	Baseline	1991	-----	24
Comments: Includes prices and service/utility rates. Does not include margin controls (also subtantially reduced).		1992	15	17
	Target	1993	9	***
		1994	8	***
		1995		
		1996		
		1997		

Indicator: Liberalization of foreign exchange				
Unit:		Year	Planned	Actual
Source: Central Bank	Baseline	1991	-----	Crawling PEG
Comments: This reform was completed in 1992. The Mission will monitor the remaining actions.	Target	1992	Implement liberalization	Total Liberalization
		1993	Maintain liberalization	
		1994		
		1995		
		1996		
		1997		

STRATEGIC OBJECTIVE NO. 1 Increased economic competitiveness

PROGRAM OUTPUT NO. 1.2 Improved/expanded financial services

Indicator: Financial intermediation margin in private banks

Unit: Percentage points		Year	Planned	Actual
Source: Staff analysis of BCCR financial information	Baseline	1992	——	11.00
Comments:		1993	11.00	***
		1994	9.00	***
	Target	1995	9.00	***
		1996		
		1997		

Indicator: Microenterprises receiving loans

Unit: Number of loans (cumulative)		Year	Planned	Actual
Source: Project reports	Baseline	1991	——	164
Comments:		1992	184	187
		1993	212	***
	Target	1994	227	***
		1995		
		1996		
		1997		

Indicator: Liquidity facility for private banks				
Unit: Number of liquidity facilities		Year	Planned	Actual
Source: Central Bank	Baseline	1991	—	0
Comments: The fund, which was established in the BCCR in 1992, cannot be tested for effectiveness until a liquidity crisis actually occurs	Target	1992	1	1
		1994		
		1995		
		1996		
		1997		

Indicator: Private bank loans as share of total bank loans				
Unit: %		Year	Planned	Actual
Source: Central Bank	Baseline	1990	32	30.3
Comments: The figures show only the loans on the local books of the private banks. Private banks extend substantial loans through their offshore companies. So actual percentage of private banks' loan portfolios is substantially higher. However no exact figures are available. 1991 figures are lower than planned due to credit restrictions imposed by the BCCR. 1992 figures are also lower than planned since many loans were paid through dollar repatriation.		1991	32	26.3
		1992	35	30.3
		1993	40	***
	Target	1994	45	***
		1995		
		1996		
		1997		

Indicator: Supervision of Cooperative Credit Unions				
Unit: Number of credit unions overseen		Year	Planned	Actual
Source: Project reports	Baseline	1991	——	0
Comments:		1992	12	12
		1993	27	***
		1994	52	***
		1995	52	***
	Target	1996	52	***
		1997		

STRATEGIC OBJECTIVE NO. 1 Increased economic competitiveness/Other: Macroeconomic Stability [1]				
Indicator: Increase in money supply (M2)-rate				
Unit: Percent		Year	Planned	Actual
Source: IMF. Central Bank	Baseline	1990	——	24
Comments: The actual numbers cited are BCCR data (consistent with IMF calculations). They do differ from the numbers used previously and should replace them as being better for international comparison. The 1992 increase was largely caused by capital inflows and the growth of deposits denominated in foreign currencies.		1991	34	26
		1992	20	30
		1993	16	***
		1994	13	***
		1995	10	***
		1996	8	***
	Target	1997	8	***

[1] The Mission has decided to report on macroeconomic stability in terms of overall country performance rather than a specific Program Outcome. These indicators are included in this Action Plan, however.

Indicator: Non-financial public sector domestic borrowing as percentage of GDP				
Unit: Percent		Year	Planned	Actual
Source: IMF	Baseline	1989	——	1.9
Comments: Central government deficits are increasingly offset by surpluses elsewhere in the non-financial public sector.		1991	——	1.3
		1992	0.3	0.2
		1993	0.1	***
	Target	1994	0.0	***
		1995		
		1996		
		1997		

TABLE 2: STRATEGIC OBJECTIVE PROGRAM "TREE"

Costa Rica
Bureau Objective: Broad-based, sustainable economic growth
Bureau Sub-objective 1: Increased trade and private investment
STRATEGIC OBJECTIVE NO. 1: Increased economic competitiveness

PROGRAM OUTCOME NO. 1.1 Trade development	PROGRAM OUTCOME NO. 1.2 Improved/expanded financial services
Projects (Number\Title) [1/]	Projects (Number\Title) [1/]
515-0241 Policy and Training Support (PATS)	515-0247 Financial Services
515-0237 Non-Traditional Exports - Technical Support	515-0252 Support to PVO's
515-0257 IESC OPG	PL-480 Title I HCOLC Section 108 Credit Lines
515-0212 Training for Private Sector Development	ESF HCOLC Central Bank Credit Lines
515-0272 Industrial Development (FY 94 start)	
ESF HCOLC - FUNDEX	
515-0240 ESR VIII	

[1/] Since Trade and Investment II (515-0260) has been completed, it is not included on these lists. Even so, the Mission continues to support specific policy areas with technical assistance as appropriate.

Strategic Objective #2: A More Streamlined, Efficient and Responsive Government

I A. Refinements or Adjustments in Strategic Objective and/or Program Outputs.

The USAID Mission sees no need to change the Strategic Objective, but has expanded the third Program Output, a strengthened legislative process, to cover the Judicial Sector as well (this was considered a non-strategic objective in last year's POD). Project Outputs are now fiscal rationalization, increased operational effectiveness of the public sector, and a strengthened legislative and judicial process.

I B. Strategic Objective Performance

The Calderón administration continued to make substantial progress toward accomplishment of this Strategic Objective over the past year, in spite of some internal resistance to certain of the reform measures. Efforts to downsize the public sector labor force met with continued progress, albeit not at the same high level of reductions experienced previously, and reforms in pension systems and customs regulations and processes also moved ahead satisfactorily. Preparations also continued for the privatization of the last two major enterprises of CODESA, the state holding company, early in 1993.

Virtually every improvement sought under this Objective has now been included in the conditionality of the proposed IBRD SAL III loan, (budget reform, institutional restructuring, privatization, customs and pension reforms), or in the IDB Investment Sector Loan (reforms in financial system and financial markets, privatization of insurance, protection of intellectual property rights, patents, trademarks, etc.).

1. Fiscal Rationalization: There are four important indicators under this Program Output: downsizing the public sector labor force; privatization, performance-based budgeting; and decreasing the public sector share of pension costs.

a. Downsizing of Government labor force: Some 11,800 public sector employees have responded to the incentives offered using HCOLC and have voluntarily left government service since 1990. The 1992 target of 3,500 departures was exceeded as approximately 4,800 persons withdrew from public employment. An additional number of up to 1,600 positions will be eliminated as pension documentation is completed for present incumbents. However, the number of volunteers is declining, costs per volunteer are rising and the available fund of local currency is diminishing rapidly. Further reductions will probably have to come as a result of institutional restructuring of government agencies, which, in turn, will be largely dependent on a new Public Employment law which has been drafted with USAID TA and will shortly be submitted to the Legislative Assembly. The SAL III conditionality to first disbursement, which calls for major consolidation of agencies and redefinition of functions, initially in the agriculture, health and transport sectors, will provide the best motivation for such reorganization. Additional reductions will be accomplished through privatization of autonomous agencies, as public services are either privatized by sale to cooperatives or other employee groups (democratized), or as a result of the concession of public works to private construction firms.

b. Privatization: Efforts to divest CODESA of its large portfolio of activities date back to 1984. That mandate was broadened to include other public institutions and service activities within the government, e.g. laundries, vehicle repair shops, etc. Government-operated retail food stores were privatized in 1991 and in 1992 were legalized as cooperatives owned by the former employees.

CODESA's last two large holdings, the cement company (CEMPASA) and the fertilizer company (FERTICA) are expected to be privatized soon since committment to the approval of the law for this action is the only unfulfilled condition for submission of the SAL III to the IBRD. The HCOLC funds currently in FINTRA (the trust fund for CODESA divestiture) will support the government on this critical step. The SAL III agreement also calls for submission to the legislature of draft laws for the privatization of the alcohol and insurance operations of the GOCR as a condition to first disbursement.

c. Budget Reform: Efforts to assist the GOCR in moving toward performance based budgeting as a means of increasing efficiency of resource allocation and programmming are proceeding in a pilot project involving a few institutions in a small geographic area. The initial experience in the pilot project shows promise, in spite of some resistance to the approach within the bureaucracy. The acid test of the seriousness of the present administration in implementing budgeting reforms will come in 1994, when SAL III conditionality requires implementation of the new procedures in a limited number of agencies, and again in 1996, when it requires implementation in the entire public sector.

d. Decreasing Government Share of Pension Costs: The enactment of legislation for a new framework for government pensions melded 16 separate pension regimes into a single unified administration. Only two major public pension systems remain outside of the Social Security System framework - the teachers and the judiciary - and all new public employees will be enrolled under one of the three systems. In addition to consolidation of pension programs, the qualifying age for pensioners was raised by five years, employee contribution requirements were increased and pensions are now taxed at the regular income rate, rather than receiving a tax exemption. These measures have shifted the government share of pension costs from 87 percent in 1991 to 77 percent in 1993, a decline which the USAID Mission expects will continue to a slightly lower figure.

2. Increased Operational Responsiveness. This Output focuses on three areas: customs reform, institutional restructuring, and improving the legal and regulatory environment.

a. Customs reform, which has been underway since 1989, has only recently made really substantial improvements in modernizing processes and procedures. Although automation at customs operations is well underway, it will be mid-1994 before the network of information processing, coordination and communications among the different users and agents involved in export/import activities is fully operational nationwide. The reorganization also calls for a complete overhaul of the Customs Service in 1993.

A.I.D. has provided HCOLC and DA assistance in the design of the modernization effort and financed hardware and the development of software for the operation. Both the time and cost of Customs processes are expected to drop dramatically in the near future. By December 1994 when the automated system links sea and air carriers, customs brokers, fiscal warehouses, banks and customs houses nationwide, release authorization for goods should take only a few hours, as contrasted with the estimated 3 to 5 days at present. A special interministerial commission is working to reduce other non-customs procedures, such as import or export permits, exemptions or special licenses, which add to delays. Following full automation of the system at the end of 1994, A.I.D. will disengage from this activity and complete the phase-out by early 1995.

b. Institutional Restructuring. Of the five priority areas selected by the GOCR for insititutional reform: agriculture, housing, public works, health and security, A.I.D. has given relatively greater emphasis to the provision of technical assistance to the first three areas. The principal obstacle to greater progress has been the requirement for extensive changes in civil service legislation, financial administration regulations, and other laws, before important adjustments in organizational structure can be made. Nevertheless, considerable progress is expected soon. In January 1993, the Ministry of Foreign Trade joined with the Ministry of Economy, Industry and Commerce. The Action Plan period should see the merging of the Ministries of Security and Government to form the Ministry of the Interior, and some final reorganization in the Ministry of Finance in the Customs and Tax Administration branches, the National Budget Office, and others which are critical to the operations of the entire public sector.

The USAID proposes to continue its efforts in this critical area through the end of 1995. Support will be given in the form of technical assistance, analyses, and studies which will help the GOCR meet the IBRD conditionality for initial restructuring prior to the first disbursement under the SAL III.

c. Improvement of the Legal and Regulatory Environment: The gains described under S.O.1 in removal of price controls, tariffs, non-tariff barriers to trade, the liberalizing of the foreign exchange regime and introduction of anti-trust legislation have all removed or reduced constraints to private sector expansion. Given the importance of such measures to trade liberalization and the creation of a secure climate for investment, the USAID Mission provided the local currency equivalent of $250,000 in September, 1992 for the purpose of assisting the GOCR in the further liberalization of the economy, particularly in the trade area. This two year effort will identify and describe the legal and regulatory environment currently characterizing the trade sector, indicating, through studies and seminars, the more important constraints to trade and investment which must be removed in order to contribute to an improved business climate. At the same time, USAID will continue to offer technical assistance mainly through FINTRA, to enable the GOCR to meet requirements in the IDB Investment Sector Loan conditionality, including the protection of intellectual property rights, patents, trademarks and copyrights - actions which are among the prerequisites for NAFTA participation.

3. Strengthening the Legislative Process. This Output is being addressed through a grant to the Center for Democracy to strengthen support systems of the Costa Rican legislature and facilitate more efficient processes for the development and passage of legislation. By strengthening certain aspects of legislative organization and procedure, the National Assembly will be given a more dynamic role in efforts at modernizing and rationalizing GOCR performance, particularly in the area of budget reform.

Initiation of action toward this Output was delayed in 1992 and activities will get underway in early 1993. Early policy dialogue has centered on practical modifications to internal regulations of the National Assembly which are directed to speeding up analysis, debate, and voting procedures. Work will begin this year on a legislative information system, the training of permanent technical staff, setting up an internship program, and the installation of a computer link to the Attorney General's library of existing legislation. These activities are planned to continue through February 1995.

4. Improved Functional Performance of Legal Institutions: Activities under this Objective are reaching the end of their first stage. The five years between 1989 and the end of 1993 focus on strengthening performance in three areas: judicial training, juridical information and sectoral planning through the National Judicial Commission. Goals in the first two areas will be met by mid-year, but work with the National Commision will be continued under the project amendment (JSIP II).

In order to consolidate the gains made to date and to work on the remaining area identified as a critical weakness in the 1987 Assessment, the inordinate delay in case processing, the second stage will focus on the strengthening and modernization of court administration. Sub-objectives will be the improvement of administrative structures (the Supreme Court's administrative role), mechanisms to speed up the processing of cases, and the introduction of alternative methods of resolving disputes with the aim of decongesting crowded court dockets.

Policy Dialogue. The policy dialogue agenda on this Objective centers on the requirements for the public sector reforms in budgeting, organizational restructuring, continued reduction in the government labor force, privatization, tax, trade and financial sector reform contained in the ISL and SAL III. Meeting these requirements will be politically difficult and economically painful in many cases. The single remaining dollar-funded project under this Strategic Objective, Policy and Training Support, in combination with up to $4 million available (monetization permitting) in local currency, will finance the analyses, training and technical guidance needed by the GOCR to undertake and sustain continuing adjustment and improvement in public sector services, continue privatization measures, and pursue the objectives of restructuring government institutions.

I.C. Monitoring and Evaluation Status and Plans

All facets of this objective except privatization are now managed by the General Development Office (previously it was shared among four different offices). A formal management group has been set up which meets with Mission management 2-4 times a month to review progress and determine next steps. This group has decided to do a sector evaluation in May 1993 to review the work of the current GOCR administration and provide a probable scenario and targets which should be sought under the next government. The USAID Mission will review the strategy under the Strategic Objective and will examine the progress made and political will shown by the government in attempting to meet the loan conditionality of the IFIs.

Costa Rica

STRATEGIC OBJECTIVE NO. 2 A more streamlined responsive. efficient government

Indicator: Current central government expenditures as % of GDP

Unit: Percent		Year	Planned	Actual
Source: Minister of Finance	Baseline	1990	-----	17
Comments: 1992 figure is preliminary		1991	18	16.8
		1992	19	17
		1993	17	***
	Target	1994	16	***
		1995		
		1996		
		1997		

Indicator: Consolidated public sector investment as % GDP

Unit: Percent		Year	Planned	Actual
Source: Minister of Finance	Baseline	1990	-----	2.2
Comments:		1991	1.8	2.8
		1992	1.8	2.6
		1993	2.6	***
	Target	1994	2.6	***
		1995		
		1996		
		1997		

STRATEGIC OBJECTIVE NO. 2 A more streamlined responsive, efficient government

PROGRAM OUTPUT NO. 2.1 Fiscal rationalization

Indicator: Cost savings from divestiture. transfer and/or liquid, of SOEs and public sector services: CODESA debt with BCCR

Unit: $ millions		Year	Planned	Actual
Source: FINTRA	Baseline	1984	——	184
Comments: The sale of CODESA's two remaining large subsidiaries will lower its debt to the BCCR by $35 million. The remaining debt will have to be written off, since no other CODESA assets will be left for the GOCR to sell. -- As other privatization actions come close to implementation, they will be included in this indicator.		1992	——	127
	Target	1993	92	***
		1994	"0"	***
		1996		
		1997		

Indicator: Central government wage bill as % of GDP

Unit: Percent		Year	Planned	Actual
Source: Ministry of Finance	Baseline	1989	——	5.6
Comments:		1991	——	5.2
		1992	4.8	5.4
		1993	4.8	***
		1994	4.6	***
		1995	4.4	***
	Target	1996	4.2	***
		1997		

Indicator: Public sector share of pension costs				
Unit: %		Year	Planned	Actual
Source: Ministry of Finance	Baseline	1991	87	87
Comments: This refers to the proportion of pensions paid out of the annual GOCR budget (i.e. not financed by the contribution system).		1992	86	84
		1993	77.3	***
		1994	80	***
	Target	1995	75	***
		1996		
		1997		

STRATEGIC OBJECTIVE NO. 2 A more streamlined responsive, efficient government

PROGRAM OUTPUT NO. 2.2 Increased operational responsiveness

Indicator: Legal and regulatory trade reforms [1]				
Unit: Number of analyses, studies, & draft legislation/year		Year	Planned	Actual
Source: C.R.'s Trade Commission. Ministry of Foreign Commerce	Baseline	1992	-----	0
Comments: As examples of LRE topics: - Regulatory restrictions to trade within the Ministries of Economy, Health and Agriculture. - Obstacles to trade and investment introduced in the Law for Consumer Protection. - Limitations on foreign suppliers of goods and services purchased by the GOCR. - Restrictions to local and foreign investment in infrastructure. - Improvements to Intellectual Property laws and regulations.		1993	4	***
		1994	2	***
		1995		
		1996		
		1997		

[1] This area of reform also applies to the Trade Development Program Output of the first strategic objective, Increased Economic Competitiveness.

Indicator: Public full time employees (excluding health and education)				
Unit: Number		Year	Planned	Actual
Source: FUCE project records. Casa Presidencial. Budget Authority	Baseline	1990	——	129,000
Comments:		1991	——	——
		1992	119.000	122,000
		1993	120,000	***
	Target	1994	118,000	***
		1995		
		1996		
		1997		

Indicator: Operational costs of customs per transaction				
Unit: U.S. dollars/transaction		Year	Planned	Actual
Source: Customs record, Central bank records	Baseline	1990	——	18.75
Comments:		1991	——	17.38
		1992	17.25	14.80
		1993	14.50	***
	Target	1994	14.00	***
		1995		
		1996		
		1997		

Indicator: Time required to clear customs				
Unit: Days/hours		Year	Planned	Actual
Source: Customs Service	Baseline	1990	-----	8
Comments:		1991	-----	5
		1992	3	2
		1993	1	***
		1994	4 hours	***
	Target	1995	2 hours	***

STRATEGIC OBJECTIVE NO. 2 A more streamlined responsive, efficient government

PROGRAM OUTPUT NO. 2.3 Strengthened legislative and judicial process

Indicator: Formalized constituency services established in the Legislature				
Unit:		Year	Planned	Actual
Source: Project records	Baseline	1991	-----	Informal process
Comments: Project formally initiated 9/92 with arrival of long-term advisor.		1992	Initiation of study	No change
		1993	Needs analysis done; alternative proposed	***
	Target	1994	Office established	***
		1995		
		1996		
		1997		

Indicator: Internal capabilities developed in the Legislature				
Unit: Project capacitation activities (cum.)		Year	Planned	Actual
Source: Project records	Baseline	1991	-----	0
Comments: Units are project activities, e.g. seminars, observation visits, training courses, and internships.		1992	10	6
		1993	40	***
		1994	50	***
	Target	1995	100	***
		1996		
		1997		

Indicator: Alternative Dispute Resolution (ADR) mechanisms introduced for civil/commercial court cases				
Unit:		Year	Planned	Actual
Source: Court records, ADR program records	Baseline	1992	-----	-----
Comments: Purpose is to introduce ADR mechanisms as a means of decongesting formal court system. Goal by end of three years is a core of ADR centers that actively receive cases.		1993	New ADR group designs pilots	***
		1994	3 pilot centers established	***
	Target	1995	3 more centers established	***
		1996		
		1997		

Indicator: Adoption of delay reduction mechanisms in court system				
Unit:		Year	Planned	Actual
Source: Court records	Baseline	1992	-----	-----
Comments: Purpose is the design and implementation of a delay reduction program applicable to the entire court system. (The measurable impact of this program may not be evident during the life of the project.)		1993	Study on causes of delay	***
		1994	Experimental adoption of recommended changes	***
	Target	1995	Court wide program	***
		1996		
		1997		

Costa Rica
Bureau Objective: Broad-based, sustainable economic growth
Bureau Sub-objective 1: Increased trade and private investment
STRATEGIC OBJECTIVE NO. 2: A more streamlined, responsive and efficient government

PROGRAM OUTCOME NO. 2.1 Fiscal Rationalization	PROGRAM OUTCOME NO. 2.2 Increased operational responsiveness	PROGRAM OUTCOME NO. 2.3 Strengthened legislative and judicial process and judicial process 1/
Projects (Number\Title)	Projects (Number\Title)	Projects (Number\Title)
515-0241 Policy and Training Support (PATS)	515-0241 Policy and Training Support (PATS)	515-0241 Policy and Training Support (PATS)
ESF HCOLC FINTRA/CODESA	ESF HCOLC Reform of the State	515-0244 Justice Sector Improvement
ESF HCOLC Reform of the State	ESF HCOLC Labor Mobility	
ESF HCOLC Labor Mobility	ESF HCOLC Customs	

1/ These projects also fall under the LAC democracy objective.

Strategic Objective #3: Maintenance of Natural Forest Habitat

I.A. Refinements or Changes in Strategic Objective and Program Outputs

The USAID Mission's current natural resource strategy documents were written in December 1987 and July 1990. Many of their findings and recommendations remain valid; however, changes in local conditions, the appearance of new agency and GOCR natural resource initiatives, and reductions in USAID/Costa Rica's financial and personnel resources have prompted a reexamination of our strategy in this sector. Work is underway on a revised sectoral strategy which will be completed by June 1993.

In this Action Plan, the USAID Mission is submitting a refined Strategic Objective program "tree" for the natural resource sector (see Tables 1 and 2). This tree puts a finer point on the Objective, replacing "improved long-term management of the natural resource base" with "maintenance of natural forest habitat." It also consolidates the number of Program Outputs from last year's five to two, and quantitative performance indicators with baseline and annual figures have been developed. The shift to the more focused Strategic Objective was based upon the fact that the current portfolio has very little to do with the natural resource base as a whole. Rather, it treats almost exclusively with deforestation and the loss of biologic diversity, which is appropriate given Costa Rica's important biological legacy (see Section III). The change is also founded upon growing recognition that certain gains in the Costa Rican economy, including foreign exchange generated by ecotourism, are predicated upon the country's ability to maintain forest habitat and biodiversity. It is responsive to concerns voiced by members of the U.S. scientific establishment and private environmental organizations regarding the loss of habitat as the principal threat confronting Costa Rica's rich biologic legacy, equal to five to seven percent of the world's total species. The USAID believes that certain of its activities designed to promote the adoption of sustainable forest management practices over the short-term will also, over time, increase the contribution of the forestry sector to Costa Rican economic growth. However, as significant gains in this regard are unlikely before the end of the Action Plan period, development of the forestry sector, per se, is not reflected in the new Strategic Objective.

The two Performance Indicators at the Strategic Objective level will require monitoring the rate at which natural forest habitat outside the national parks is being lost. In early 1992 it was estimated that this encompassed 192,000 hectares, which, according to the General Directorate of Forestry (DGF), was being lost at an annual rate of about 30,000 hectares. The USAID program calls for decreasing this rate of loss over the next four years and stabilizing the area under such productive natural forest at 150,000 hectares by the end of 1996. (See Table 1)

The Strategic Objective will be sought through the accomplishment of two revised Program Outputs which, as revised, consolidate the intent of the more numerous project level type outputs included in last year's Action Plan. The first of the new Program Outputs is "improved management and integrity of the national park system," for which the selected performance indicators will be 1) the level of revenues generated by the national parks as a percent of the system's operating costs (as a proxy for improvements in park planning, facilities and concession development, and financial management) and 2) an increase in the percent of conservation law infractions in the parks effectively adjudicated by the courts (as a proxy for improvements in the demarcation of park boundaries, patrolling procedures, and park system jurisprudence). The second Program Output, "legal, market, and price environment conducive to sustainable private forestry," will have as its indicators 1) real increases in stumpage values of standing timber (as a proxy measure of the success of efforts taken to increase the attractiveness of forestry as a land use, such as liberalization of forest product markets and the related trade regime) and 2) the number of management plans submitted by individual land owners for DGF approval (as a proxy measure of the adoption of sustainable forest management practices by private land owners).

I.B. Strategic Objective Performance

Tables 1A and 1B of last year's Action Plan provided two performance indicators at the Strategic Objective level, and thirteen more performance indicators were arrayed against five Program Outputs (items a through e below).

At the Strategic Objective level, the area reforested during 1992 is estimated by the General Directorate of Forestry to have been no more than 7,400 hectares. This figure is below the 1992 target (15,000 hectares) provided in last year's Action Plan, largely due to the shortage of funds available to finance the GOCR's subsidized reforestation programs and the absence of "correct" price signals that would make reforestation attractive as a private, for-profit, commercial enterprise. DGF officials also estimate that the area deforested nationwide during 1992 was about 30,000 hectares, at the lower range of the 1992 target (30,000 to 35,000 hectares). Meanwhile, management plans for three conservation areas receiving direct A.I.D. assistance--the Central Volcanic Cordillera Conservation Area (CVCCA), the Osa Penninsula, and Tortuguero--were drafted during 1992, together with a plan for one other conservation area, Talamanca. While one of the plans is officially on "hold" within MIRENEM, activities congruent with the remaining three plans are being initiated.

Progress against the performance indicators for those Program Outputs related to the management and integrity of the national parks was mixed:

a) Institutionalizing the Base for Regional Conservation Areas. A draft law reaffirming the conservation area approach to park management was drafted with USAID assistance, revised and submitted by the Ministry of Natural Resources and Environment (MIRENEM) to the legislative assembly. Assembly reaction to the bill was very negative, and the prospects of reviving it at this point are dim. Nevertheless, the conservation area approach is taking root under the auspices of a decree issued by MIRENEM. As a result, 84 separate parks and reserves have been consolidated into seven more manageable conservation areas. Each has its own organizational structure which encourages the participation of local people and non-governmental organizations in planning park and buffer zone investments. This is particularly true in the CVCCA which is receiving support from the FORESTA project. An experienced law firm has been hired to prepare the endowment agreement for the FUNDECOR trust. The endowment agreement will be negotiated and executed with the GOCR in 1993.

b) Maintenance of the Integrity of National Parks and c) Increased Sustainable Economic Natural Resource Use in Three Buffer Zones. While the boundary of the CVCCA buffer zone and the priority areas for FORESTA project activities have been identified, the demarcation of park boundaries within the CVCCA has been suspended pending the development of lower cost methodologies. Poor boundary demarcation will continue to hamper park protection efforts, but significant improvements were still made in this regard during 1992 by reassigning existing staff to create two more four-person roving patrols in addition to the three patrols already operating in the CVCCA. This increased the patrol force to one guard per 21,000 hectares. While this is slightly above the 1992 target (one guard per 18,125 hectares), the effectiveness of all five patrols was improved through training and the provision of radio equipped vehicles. The cost effectiveness of these expanded patrol efforts will be evaluated in 1993. In the meantime, the national park service, FUNDECOR and the USAID are exploring how revenues generated from the CVCCA parks themselves can be increased and used to meet the recurrent costs of improved protection and park management. In sum, the CVCCA and FUNDECOR are maturing and will soon serve as the real world venue for testing the conservation area concept.

Significant progress was made against those performance indicators related to the appearance of a legal, market, and price environment conducive to sustainable private forestry.

d) Increased Sustainable Management of Private Forests. During 1992 two USAID-financed studies of the forestry sector's economic and policy environment were completed. The second of these studies, undertaken at the request of MIRENEM and prepared by the Tropical Science Center, incorporated the findings of the first study and provided detailed recommendations for instituting a policy structure more conducive to sustainable forest management. The Ministry has already promulgated certain regulatory changes recommended by the report (e.g. total degregulation of the harvest, transport and marketing of produce from self-financed forestry plantations). The USAID Mission will continue working with MIRENEM as it develops and submits the proposed legislative changes for consideration by Costa Rica's Legislative Assembly during 1993. Key legislators who participated in the USAID's December 1991 study tour of of Chilean forestry sector have been very supportive of these efforts to date. The proposed Forestry Regulation for Sustainable Management project is expected to facilitate adoption of this new policy structure by helping assure that a potential negative short-term side effect -- unsustainable increases in the cutting of standing natural forest -- is minimized. Meanwhile, 170 hectares of privately held forest land were placed under sustainable forest management during 1992 with BOSCOSA and FORESTA project assistance. Management plans for at least another 3000 hectares will be prepared for DGF approval during 1993. The regulatory and legal changes will expedite future management plan preparation, approval and monitoring. Finally, USAID authorized a $900,000 grant to the locally based Organization for Tropical Studies in September 1992 which will provide a reforestation technical assistance element to the portfolio and complement a number of other project activities. This three-year effort will focus on the implementation of community-based reforestation projects using native species, thus increasing survival rates and sustainability in a number of areas of the country.

e) Strengthened Local Knowledge and Implementation of Natural Resources Management. Human resource constraints to progress in this sector were captured by this final program output in last year's Action Plan. Inadequate knowledge and skills levels of national parks system staff, forestry officials, the judiciary, journalists, nongovernmental organization membership, private sector forestry firms, and private landowners are viewed as important constraints to realizing the Strategic Objective and Program Outputs in this sector. Therefore, current projects have human resource development components, structured primarily around short-term technical training. In addition, over the longer term the graduates of EARTH's four-year academic program are expected to play pivotal roles at the field level in promoting the adoption of more sustainable technologies for tropical land uses. Finally, with this Action Plan, the USAID Mission is forwarding to AID/W two new project descriptions for activities designed to further relieve this human resource constraint. The first project, scheduled to start in FY 1994, would provide training for judges, municipal officials and MIRENEM funcionaries with regard to conservation law enforcement and support the training of park managers at a highly successful private reserve. The second project, with a scheduled start in FY 1995, would seek to expand the breadth of public support for public and private environment initiatives in Costa Rica beyond its rather elitist (and currently all too foreign) origins. This would be attempted through the most cost-effective mix of formal and non-formal education, social marketing techniques.

Policy Dialogue

Over the Action Plan period, the USAID will continue to focus its policy dialogue resources on the regulatory and legal changes needed to stimulate the adoption of sustainable forest management practices by those individuals holding privately-owned forest land. In addition, we will add a new item to the policy agenda. Over the past decade, Costa Rica has relied to a great extent on international donors to finance expansion and maintenance of the national park system. While this proved reasonably successful over the short-term, the general uncertainty of such financing and the competing objectives and requirements of so many donors have exacerbated existing financial and institutional problems. In future, policy dialogue resources will be concentrated on the need to increase the proportion of financing from local sources --particularly from the parks themselves-- and on related financial management and institutional issues confronting the national park system.

I.C. Monitoring and Evaluation Status and Plans

Table 1 provides the six performance indicators for the strategic objective and program outputs. The Table also indicates that satisfactory baseline data exists for five of the six indicators, and, hence, baseline years and values, target years and values, and estimated values for the intervening years have been estimated for these five indicators. The exception is the indicator regarding real increases in the stumpage value of standing timber. While the search for satisfactory secondary data continues, the USAID Mission is making plans to contract with a local economist to collect data and construct a simple index during 1993.

A regular portfolio evaluation plan and schedule is maintained by the Office. The FORESTA project is scheduled for a regular project evaluation late in CY 1993. In addition, the USAID Mission and POL/CDIE/E/POA have tentatively scheduled a natural resources sector evaluation for late in 1993.

STRATEGIC OBJECTIVE NO. 3 Maintenance of natural forest habitat

Indicator: Loss of area under natural forest lying outside the national park system				
Unit: Hectares lost		Year	Planned	Actual
Source: Dirección General Forestal	Baseline	1992	----	30,000
Comments: The baseline figure of 30,000 hectares was provided by the GOCR's Dirección General Forestal. Figures for 1994 and 1996 will be generated through sample surveys financed under the Forestry Regulation for Sustainable Management Project.		1993	24,000	
		1994	14,000	***
		1995	4,000	
		1996	0	***
	Target	1997	0	

Indicator: Area remaining under productive natural forest				
Unit: Hectares remaining		Year	Planned	Actual
Source: Dirección General Forestal	Baseline	1992	----	192,000
Comments: The baseline figure of 192,000 hectares is taken from "Potential Impacts of Climatic Change on Productive Capacity of Costa Rican Forest," prepared by J. Tosi, V. Watson and J. Echeverria and published by the Tropical Science Center (San José) in 1992. Figures for 1994 and 1996 will be generated through sample surveys financed under the Forest Regulation for Sustainable Management Project.		1993	168,000	
		1994	154,000	***
		1995	150,000	
		1996	150,000	***
	Target	1997	150.000	

STRATEGIC OBJECTIVE NO. 3 Maintenance of natural forest habitat				
PROGRAM OUTPUT NO. 3.1 Improved management and integrity of the national park system				
Indicator: Revenues generated by the national parks as a percentage of the system's operating costs.				
Unit: Percent		Year	Planned	Actual
Source: National park system financial reports	Baseline	1992	—	25
Comments: During 1992 revenues generated by the parks equalled approximately 89 million colones. Actual park system operating expenditures during 1992 are still being determined but are believed to be in the range of 350 million colones (89/350=25%). Final figures for 1992 and annual figures for future years will be provided by the National Park Service.		1993	35	***
		1994	50	***
	Target	1995	66	***
		1996		
		1997		

Indicator: Conservation law infractions in the national parks effectively adjudicated by the courts				
Unit: percent		Year	Planned	Actual
Source: Sample Survey	Baseline	1992	—	0
Comments: The baseline figure of 0 percent is based upon the results of a sample survey from the CVCCA published by P. Madrigal in "La Administración de Justicia para la Protección de los Recursos Naturales" (1992). Figures for subsequent years will be generated through sample surveys financed under the FORESTA Project or the proposed Biodiversity Management and Protection Training Project.		1993	10	***
		1994	35	***
		1995	50	***
	Target	1996	75	***
		1997		

STRATEGIC OBJECTIVE NO. 3 Maintenance of natural forest habitat

PROGRAM OUTPUT NO. 3.2 Legal, market and price environment conducive to sustainable private forestry

Indicator: Increased stumpage value of standing timber.

Unit: Index of stumpage values (1992=100)		Year	Planned	Actual
Source: Sample survey financed by USAID	Baseline	1993	—	100
Comments: If no suitable secondary sources can be identified, baseline data will be collected and an appropriate index structured through a study financed under the Forestry Regulation for Sustainable Management Project. Subsequent surveys financed by the project will provide figures in the subsequent years.		1994	110	***
		1995	150	***
	Target	1996	200	***
		1997		
		1998		

Indicator: Adoption of sustainable forest management practices

Unit: Number of sustainable forest management plans submitted for DGF approval		Year	Planned	Actual
Source: DGF data base	Baseline	1992	—	100
Comments: The actual figure for 1992 is being computed by the DGF and will be provided in next year's Action Plan. For this Action Plan, an index of 100 is assigned to 1992 and anticipated annual growth in the number of sustainable forest management plans is indicated accordingly.		1993	120	***
		1994	180	***
		1995	250	***
	Target	1996	300	***
		1997		

Costa Rica
Bureau Objective: Broad-based, sustainable economic growth
Bureau Sub-objective: Increased potential for sustainable economic gains
STRATEGIC OBJECTIVE NO. 3: Maintenance of natural forest habitat

PROGRAM OUTCOME NO. 3.1 Improved management and integrity of the national park system	PROGRAM OUTCOME NO. 3.2 Legal, market and price environment conducive to sustainable private forestry
Projects (Number\Title)	Projects (Number\Title)
515-0243 Forest Management (FORESTA)	515-0263 Forestry Regulation for Sustainable Management
515-0249 Tortuguero	515-0255 Forest Conservation and Management (BOSCOSA)
515-0274 Biodiversity Protection and Management Training (FY94 start)	515-0241 Policy and Training Support (PATS)
515-0275 Public Demand for Environmental Services (FY95 start)	515-0243 Forest Management (FORESTA)
936-5554 Conservation of Biological Diversity	515-0262 Native Trees (OTS)
LAC-0035-6-55-8026 Tortuguero Support	515-0275 Public Demand for Environmental Services (FY95 start)
	936-5554 Conservation of Biologic Diversity
	596-0129 Regional Agricultural Higher Education

Other Activity: Successful Transfer to GOCR or the Private Sector of Full Responsibility for Availability and Access to Effective Reproductive Health Services

According to the financial viability indicators, the planned consolidation and phase out of the USAID Mission's involvement in the reproductive health sector began in 1992, at least in terms of increased counterpart responsibility for financing contraceptive purchases. The test will come when the ongoing $8.5 million project ends in July 1993, and the consolidation project, with its much reduced levels of support for technical/program expenses (and no support for contraceptive purchase), kicks in. The USAID Mission is confident that the transition will be smooth. Weaknesses noted in the mid-term evaluation of the ongoing project (515-0168) concerning the continuing absence of clinical training in family planning in the public medical school curricula, and the separation of the population technical group from the supporting public institutions, have been addressed and the adjustments begun. The final tranche of funds to this activity will be made in FY1993.

Looking ahead, the USAID Mission would recommend that an evaluation of the entire 25 year collaboration in the population field be done a few years after the consolidation project ends.

OTHER ACTIVITY NO. 1 Successful transfer to GOCR or private sector of full responsibility for sustainable reproductive health services

PROGRAM OUTPUT NO. 1.1 Financial viability assured

Indicator: Public sector financing of public supported family planning services

Unit: Percent		Year	Planned	Actual
Source: CCSS budget, estimated consultation costs	Baseline	1990	——	75
Comments As of 1993, includes consultations and contraceptive purchases.		1991	——	75
		1992	75	79
		1993	85	***
		1994	90	***
	Target	1995	100	***
		1996		
		1997		

Indicator: Self-sufficiency of contraceptive marketing firm

Unit: Percent		Year	Planned	Actual
Source: PROFAMILIA financial statements	Baseline	1995	——	0
Comments		1991	——	20
		1992	25	28
		1993	50	***
		1994	72	***
	Target	1995	100	***
		1996		
		1997		

OTHER ACTIVITY 1 Successful transfer to GOCR or private sector of full responsibility for sustainable reproductive health services				
PROGRAM OUTPUT NO. 1.2 Sustainable, expanded family planning services				
Indicator: Crude birth rate				
Unit: Live births per thousand		Year	Planned	Actual
Source: DGEC vital statistics	Baseline	1985	------	32
Comments: Info not available until March or April		1991	27.8	27.3
		1992	27.5	***
		1993	27	
		1994	26.8	
	Target	1995	26.5	***
		1996		
Indicator: Family planning programmatically integrated into Social Security Institute preventive health program				
Unit:		Year	Planned	Actual
Source: Project records	Baseline	1988	------	Management structure created for FP project
Comments:		1991	No change	No change
		1992	No change	No change
	Target	1993	Management structure consolidated, financed in annual budget	***

Indicator: Fertility rate				
Unit: Number of children/woman		Year	Planned	Actual
Source: Census Bureau	Baseline	1990	----	3.3
Comments: Best measured in 5 year intervals, 1990, 1995		1992	3.3	
		1993	3.3	
		1994	3.2	
	Target	1995	3.2	***
		1996		
		1997		

Indicator: Reproductive age women served annually				
Unit: Number of women		Year	Planned	Actual
Source: Health sector records, CSM sales, office estimate	Baseline	1986	----	113,746
Comments:		1991	----	157,700
		1992	162,500	163,600
		1993	168,500	***
		1994	173,500	***
	Target	1995	175,000	***

Costa Rica
Bureau Objective: Broad-based, sustainable economic growth
Bureau Sub-objective: Increased potential for sustainable economic gains
OTHER ACTIVITY 1: Successful transfer to GOCR of private sector of full responsibility for sustainable reproductive health services

OTHER PROGRAM OUTCOME NO. 1.1 Financial viability assured	OTHER PROGRAM OUTCOME NO: 1.2 Sustainable expanded family planning services
Projects (Number\Title)	Projects (Number\Title)
515-0168 Family Planning, Self-Reliance	515-0168 Family Planning, Self-Reliance
515-0261 Reproductive Health Consolidation	515-0261 Reproductive Health Consolidation

Other Activity: Enhanced access to resources needed by predominantly lower income groups in order to participate actively in the economy

Direct USAID activities supporting this non-strategic objective have fallen to three: a small community development fund carried out in collaboration with Peace Corps, a regional development project, and the Central American Peace Scholarships Program. Results are basically straight project outputs that mean more in the aggregate: over the life of these projects, more than 800 rural school structures were built or repaired; some 925 communities built community infrastructure under a matching grant program, and more than 2,150 Costa Ricans have lived and studied in the U.S. as CAPS scholars (1500 short term and 651 long-term). The regional development project, which is much more complicated in scope, has been reworked to allow the USAID Mission to limit its focus to the community-managed road maintenance organization and to the introduction of one alternative crop (heart of palm) in the northern region of the country.

This non-strategic objective, already small, will continue to shrink through the Action Plan period and, by the end of 1995, only CAPS will still be underway. The GOCR ESF HCOLC sector programs in education, water, and welfare should similarly be completed during FY93 and early FY94.

No evaluations are planned for the projects under this objective.

OTHER ACTIVITY NO. 2: Enhanced access to resources needed by predominantly lower income groups to participate actively in the economy

PROGRAM OUTCOME NO. 2.1 Strengthened human resource base

Indicator: Persons trained annually through CAPS program

Unit: No. of Trainees		Year	Planned	Actual
Source: Project records	Baseline	1991	-----	210
Comments: Program outputs have fallen due to reduction in funding for project and termination of short-term vocational training.		1992	125	119
		1993	107	***
		1994	40	***
		1995	40	***
	Target	1996	40	***
		1997		
		1998		

PROGRAM OUTPUT NO. 2.2 Improved rural infrastructure

Indicator: Communities benefitting from small infrastructure projects

Unit: Number of projects (cumulative)		Year	Planned	Actual
Source: Project files	Baseline	1991	-----	1,554
Comments:		1992	1,680	1,734
	Target	1993	1.803	***
		1994		
		1995		
		1996		
		1997		

Indicator: Road maintained by new community-based road maintenance organization				
Unit: Kilometer of road maintained		Year	Planned	Actual
Source: AMV records-Northern Zone Consolidation Project	Baseline	1992	——	0
Comments:		1993	175	***
	Target	1994	400	***
		1995		
		1996		
		1997		

Costa Rica
Bureau Objective: Broad-based, sustainable economic growth
Bureau Sub-objective: Increased potential for sustainable economic gains
OTHER ACTIVITY 2: Enhanced access to resources

OTHER PROGRAM OUTCOME NO. 2.1 Strengthened human resource base	OTHER PROGRAM OUTCOME NO. 2.2 Improved rural infrastructure
Projects (Number\Title)	Projects (Number\Title)
515-0242 Central America Peace Scholarships (CAPS)	515-0235 Northern Zone Consolidation
515-0254 CAPS II	ESF HCOLC Special Development Fund

SECTION II: PORTFOLIO ANALYSIS; STATUS OF PORTFOLIO

II.A New Project Descriptions

FY 1994

Industrial Development Project

LAC Bureau Objective:	Support the achievement of broadly-based, sustainable economic growth.
LAC Bureau Sub-objective:	Encourage economic policies that promote investment, productive employment and outward-oriented diversification.
Project Title:	Industrial Development
Project Number:	515-0272
Fiscal Years:	FY1994-1997
LOP Funding:	$2,000,000
Type of Funding:	Development Assistance

A. Consistency with Mission Strategy

1.	Project Goal:	Increase the economic competitiveness of Costa Rica.
	Goal Indicator:	-Nontraditional exports as % of merchandise exports
2.	Project Purpose:	Increase the competiveness of local industries in domestic and international markets, in this way, support the country's transition to a more open and competitive economy.
	EOPS Indicators:	-Increase the share of production for export versus domestic market in at least three industrial sectors. -Productivity of participating companies increased by 10% -New markets penetrated by at least 50 local companies -Quality of products improved in at least 40 companies

B. Relationships to AID and Other Donor Activities: Since the early 1980's, A.I.D.-supported programs have promoted the diversification of production into non-traditional exports to third countries. Once the transformation was well underway, USAID and the IBRD began to encourage the lowering of tariff and non-tariff barriers. This project responds to the worries of national producers concerning their ability to compete and survive in a more compettitive marketplace. It may receive further support from the IDB Investment Sector Loan, which would allocate resources for industrial reconversion.

C. Relationship of Project to Overall AID Policy Objectives: USAID's strategy is designed to increase competitiveness in international markets by furthering the liberalization of both trade and investment. This project will support such economic transformation and maximize Costa Rica's comparative advantage in domestic and world markets by identifying legal, regulatory and policy-level constraints to industrial competitiveness and by assisting local firms to restructure their operations and, possibly, their product lines.

D. Project Description: Costa Rica has made significant progress over the past 10 years as a result of following export development strategies. To deepen the effect of these strategies, the GOCR has committed the country to further economic liberalization. Tariff protection has been reduced, the foreign exchange regime and capital account have been liberalized and domestic price controls significantly reduced. A successful transition to competitive trade requires that formerly protected industries now begin to restructure and adapt to new competition.

This comprehensive three-year project will focus on policy issues and the legal and regulatory barriers to the development of internationally competitive local industries, particularly with regard to compliance with world standards regarding quality production and processing. At a second level, the project's activities will identify local industry sectors with potential comparative advantages and will provide them with technical assistance, marketing and training for programs which maximize their competitive strengths. Project activities will support local industries' adoption of new technologies, the development of new products, the retraining of workers and the strengthening of marketing outreach efforts locally and internationally. This effort will build on, and serve to consolidate under one project many of the private sector activities currently being implemented in the portfolio.

The Project's beneficiaries include approximately 100 local industrial companies in various sectors. Other beneficiaries will be approximately 3,000 workers in the companies receiving direct assistance and approximately 6,000 workers in companies indirectly affected.

E. Planned Implementation Arrangements: Project Implementation will be coordinated by private and public entities with demonstrated ability to successfully assist local industries. The grant will be administered by the Costa Rican Coalition of Development Initiatives (CINDE), a private non-profit institution which is recognized as an apolitical spokesman for the private sector.

The activities will be guided and monitored by a joint commission composed of the GOCR, private sector chambers and CINDE. Annual implementation plans approved by this joint commission will serve as a framework for coordinating the efforts of executing entities. Institutions expected to participate in project's implementation include: AGESTI, a technology transfer center; CONICIT, a public entity for technology development, INTECO, a standardization institute, International Executive Service Corp (IESC) which will provide short-term technical assistance, and CINDE, contributing with its technical assistance, training, and marketing expertise.

F. Sustainability of Proposed Activities: The implementing agencies will charge a sliding scale fee for the technical assistance to 75% of the companies assisted. In addition, the implementing units will share 2.5% of the sales receipts generated by local industries which will have benefitted from the Project's assistance. Income received during the three-year program is expected to finance a substantial portion of an additional two years of project activity. Since this is not an institutional development project, per se, its sustainability is expected to be maintained for a period of only two years beyond A.I.D.'s funding.

G. Mission Management Role: USAID Mission Project management will be the responsibility of USAID's Private Sector Office which will provide guidance to CINDE in administering and implementing the Project. The management structure will not require additional USAID Mission personnel.

New Project Description

FY 1994

Biodiversity Protection and Management Training

LAC Bureau Objective I:	Support the achievement of broadly based, sustainable economic growth.
LAC Bureau Subobjective D:	Encourage preservation and sustainable use of the natural resource base.
Project Title:	Biodiversity Protection and Management Training
Project Number:	515-0274
Fiscal Years:	FY 1994-1997
LOP Funding:	$900,000
Type of Funding:	Development Assistance

A. Consistency with Mission Strategy

1. Project Goal: Maintenance of natural forest habitat.
   Goal Indicator: -Area remaining under productive natural forest.

2. Project Purpose: Improved management and integrity of the national park system.
   EOPS Indicators: -Revenues generated by the national parks as a percentage of the system's operating costs.
   -Conservation law infractions in the parks effectively adjudicated by the courts.

B. Relationships to AID and Other Donor Activities: The USAID Mission's current Action Plan identifies the "maintenance of natural forest habitat" as its Strategic Objective in the natural resource sector. This Strategic Objective will be sought through the achievement of two program outputs, the first of which is "improved management and integrity of the national park system." Experience gleaned from on-going USAID/Costa Rica projects indicates that a major short-term constraint to realizing this program output is the knowledge and skills level of key government functionaries involved in the management of the national park system and the enforcement and adjudication of the country's conservation laws. The proposed project would address this shortfall. By doing so the project would also support work financed in other portions of the national park system by other international donors, including the Canadian, Dutch, Finnish, and German governments, as well as IDB and the EEC.

C. Relationship of the Project to Overall AID Policy Objectives: Over the past decade, Costa Rica has relied to a great extent on international donors to finance the expansion and maintenance of its national park system. While this proved reasonably successfully over the short term, the general uncertainty of such financing, and the competing objectives and requirements of so many donors have exacerbated existing financial and institutional problems. During the Action Plan period, USAID/Costa Rica proposes to concentrate its policy dialogue resources on the need to increase the proportion of financing from local sources--particularly from the parks themselves--and on related financial management and institutional issues confronting the national park system. The proposed project would be a key tactical element of this process.

D. Project Description: The first of the project's two components will consist of a matching Operational Program Grant to support efforts of the Monteverde Cloud Forest Preserve to construct a new Biodiversity Management Training Center (as part of a new visitor center complex) and to institute training programs in 1) park development and management and 2) applied conservation research methods for parks personnel and conservation biologists. Founded in 1972 by the Tropical Science Center, a non-profit Costa Rican association of scientists and educators, the Monteverde Cloud Forest Preserve is the oldest privately owned natural reserve in Central America and is recognized as one of the most outstanding wildlife sanctuaries in the New World tropics. Between 1984 and 1992 the number of visitors grew from 5,900 to over 40,000. This increase in traffic has required the expansion of visitor facilities, and in 1992 USAID/Costa Rica provided a $50,000 grant for forest trail improvements.

This project would help establish the facilities and programs required to systematically share the positive management and research experience developed at this outstanding private sector preserve with public sector park managers and concerned conservation biologists. Related project outputs would include:

-- construction of the Biodiversity Management Training Center (as part of a new visitor center);
-- the design and institution of training programs for public and private sector park managers in park development and management, with special emphasis in financial management, including alternative methods of revenue generation and cost containment; and
-- the design and institution of training programs in applied conservation biology research methods to help guide future park development and improve the cost effectiveness of future buffer zone investment programs.

The project's second component would be carried out under another Operational Program Grant by the International Union for the Conservation of Nature (IUCN). In 1990, IUCN began providing environmental legal training to Central American judges and municipal leaders under a pilot project that ended in December 1992. However, given the importance of the national park system and the integrity of the system in maintaining Costa Rica's rich biological legacy, there is an obvious need to expand IUCN's training activies here in Costa Rica. For example, a recent survey of conservation law enforcement efforts in one of Costa Rica's major national parks revealed that of about one hundred official charges made over the 1990-1991 period, one-third were found unconstitutional and the remaining two-thirds have been suspended or dismissed. In addition, national park guards and other enforcement officials often are not well skilled in case preparation, collecting and preserving evidence, giving testimony and the like. USAID/Costa Rica would capitalize on IUCN's established program which requires little additional design and start-up costs.

E. Planned Implementation Arrangements: As described above, the project would essentially take the form of two Operational Program Grants.

F. Sustainability of Proposed Activities: Both activities are relatively short-term, designed to fill critical shortfalls in the knowledge and skills levels of, primarily, government functionaries.

G. Mission Management Role: It is expected that during its first year this project would require the services of one FSN professional working approximately half-time. In the subsequent years, project implementation would be expected to fall to one-quarter to one-third time.

New Project Description

FY 1995

Public Demand for Environmental Services

LAC Bureau Objective I:	Support the achievement of broadly based, sustainable economic growth.
LAC Bureau Subobjective D:	Encourage preservation and sustainable use of the natural resource base.
Project Title:	Public Demand for Environmental Services
Project Number:	515-0275
Fiscal Years:	FY 1995-1998
LOP Funding:	$500,000
Type of Funding:	Development Assistance

A. Consistency with Mission Strategy

1. Project Goal: Maintenance of natural forest habitat.
   Goal Indicator: -Loss of area under natural forest lying outside the national park system.
2. Project Purposes: 1) Improved management and integrity of the national park system.
   2) Legal, market and price environment conducive to sustainable private forestry.

   EOPS indicators: - Revenues generated by the national parks as a percentage of the system's operating costs.
   - Number of sustainable forest management plans submitted for DGF approval.

B. Relationships to AID and Other Donor Activities: The USAID Mission's current Action Plan identifies the "maintenance of natural forest habitat" as its strategic objective in the natural resource sector. This strategic objective will be sought through the achievement of two program outputs, "improved management and integrity of the national park system" and "legal, market and price environment conducive to sustainable private forestry." In a country with the democratic traditions of Costa Rica an important condition for achieving and sustaining these program outputs is sufficient public interest in and support for the national park system and efforts to curb deforestation. In recent years Costa Rica has received worldwide recognition as a leader in tropical conservation, but it is not at all clear that sufficient public support exists to sustain the gains made to date, let alone continue breaking new ground.

Perhaps the best example of this problem is that of the national park system which forms the core of Costa Rica's biodiversity conservation strategy. The very existence of the system, which encompasses more than 12 percent of the entire country, would seem to suggest that such broad public support does exist. However, those close to its history (it only started in 1969) recognize it as the rather remarkable achievement of a handful of dedicated Costa Ricans who were very effective in marshalling support from foreign donors. This vision of the park system as a rather "elitist and foreign" product is borne out by park attendance figures for 1992 which indicate that foreigners made more visits to the parks (318,000) than did Costa Rican nationals (281,000). These figures imply that there is substantial scope for market development or "consciousness raising" among the Costa Rican populace to increase the demand for national park services. By increasing park system revenues, such increased demand would strengthen the system's financial performance and enhance overall park management. Perhaps more importantly, it would help elevate the place of the parks and related environmental issues such as deforestation in the public policy agenda of Costa Rica.

C. Relationship of the Project to Overall AID Policy Objectives: As described in USAID/Costa Rica's current Action Plan, the mission is concentrating its policy dialogue resources on the need to increase the proportion of national park system financing from local sources--particularly from the parks themselves. Additionally, USAID/Costa Rica is promoting the appearance of a legal, market and price environment conducive to sustainable private forestry. Getting these items on the agenda of the country's legislature, encouraging enlightened decisions by concerned public officials and private firms and monitoring their eventual performance, as well as sustaining legislative, regulatory, and behavioral changes by all concerned parties will be facilitated by a more broadly informed and energized public.

D. Project Description: The purpose of the proposed project is to expand the breadth of public support for public and private environmental initiatives in Costa Rica beyond its rather elitist (and all too foreign) origins. This will be sought through the most cost effective mix of formal and non-formal education and other modes of market or demand development measures.

USAID/Costa Rica, together with a number of GOCR institutions, other donors and non-governmental organizations are involved in formal environmental education. Many of these programs focus on the design of curricula and teaching materials for use in the public schools. Unfortunately, actually getting these materials into the classroom is primarily constrained by competing demands to keep or insert other subjects into the official curriculum. Over the course of project design an assessment will be made of whether A.I.D. should expand its role in supporting formal environmental education activities in Costa Rica. Perhaps the more interesting aspect of project design will be looking at less formal methods of building public awareness of Costa Rica's pressing environmental issues, particularly those related to the maintenance of natural forest habitat. Reflecting on the explosion of public interest in environmental issues in the U.S. during the late 1960's and early 1970's, it is clear that peoples' reactions were prompted by something other than formal classroom instruction. During project design those groups most likely to be "won over" to the need for maintaining natural forest habitat and their relative level of influence on public opinion and public policy will be identified and cost effective strategies for informing and motivating these groups will be explored. The effectiveness of social marketing techniques, group mobilization, media campaigns, teach-ins and other less formal means of market and demand development or "consciousness raising" will be assessed accordingly.

E. Planned Implementation Arrangements: Implementation arrangements will be finalized pending a clearer definition of project elements.

F. Sustainability of Proposed Activities: The project is presently viewed as a discrete intervention to increase public support for public and private environmental initiatives over the short-term. Sustaining public interest in environmental matters into the twenty-first century would perhaps be facilitated by the proposed Costa Rica/U.S. foundation under consideration by AID/W.

G. Mission Management Role: It is expected that during its first year this project would require the services of one FSN professional working approximately half-time. In the subsequent years, project implementation would be expected to fall to one-quarter to one-third time.

II.B Status of Portfolio

The USAID Mission currently reports on 23 active dollar projects with a total authorization of $265 million, including two ESF programs totaling $95 million (ESR VIII - $85 million and ESR XI - $10 million). ESR VIII is still included because its pipeline of $10 million has not been disbursed, pending the resolution of expropriation cases. The portfolio includes two large regional projects for which we have implementation responsibility but which are not included in our OYB; the EARTH (596-0129) and Regional Administration of Justice (597-0002) Projects. Of the 23 active dollar projects, 14 are directly related to the support of the USAID Mission's Strategic Objectives.

Consistent with long-term plans, the size of the DA portfolio continues on a downward trend. During FY92 the USAID reported on three new projects (Native Tree Reforestation Project, Reproductive Health Consolidation Project, and Partnership for Democracy and Development Project), one new program (Trade and Investment Program II), and one amendment (Training for Private Sector Development Project), while six projects reached their PACDs, and are now being closed out.

On the local currency side, the current value of the active local currency portfolio is approximately C 38 billion ($275 million). There are approximately 37 ESR generated local currency activities and 75 PL 480 generated activities in the active portfolio. PL 480 activities are being implemented by the GOCR with relatively low levels of USAID support while our support requirements under the ESR generated programs range from low to intensive. The USAID Mission has initiated a consolidation of the local currency program by terminating various program activities and by shifting overall management responsibility for some of these programs to the GOCR. We are analyzing those activities that lack clear termination and closure articles, and developing decision papers on each one, including timetables for disengagement. With the cessation of the ESF balance of payments program in FY 93, the HCOLC horizon is limited to the remaining undisbursed HCOLC funds in the Central Bank (plus the $10 million from the pending ESR VIII disbursement), all of which is already programmed and committed to ongoing programs, and to the satisfactory completion of the projects.

The USAID portfolio will decrease from 23 in FY 92 to 11 in FY 95, (including planned starts). At current levels of resources, the USAID Mission plans to limit itself to a total of three new starts for FYs 1994 and 1995. To accomplish this, the provision of new funding to ongoing projects will adhere closely to the forward funding guidelines.

Table 3: USAID/Costa Rica DOLLAR PORTFOLIO -- PROJECT TIMELINE

	FY92				FY93				FY94				FY95				FY96				FY97			
PROJECT NUMBER\TITLE	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Cooperative Housing Foundation No. 515-0258	b																							
Program in Science & Technology No. 936-5542.12		b																						
PVO Support (PACT) No. 515-0232		b																						
Cooperative Management Strengthening No. 515-0248			b																					
Drug Awareness & Education No. 515-0253			b																					
Ecological Tourism No. 940-0002.90			b																					
Rural Infrastructure Restoration No. 515-0269, 907-1048				b																				
Tortuguero Conserv. & Dev. No. 515-0249					b																			
Program in Science and Technology No. 936-5542.13						b																		
ESR XI Trade and Investment Project II No. 515-0260			a				b																	

a: Project Authorization Date
b: PACD
c: New PACD

	FY92				FY93				FY94				FY95				FY96				FY97			
PROJECT NUMBER\TITLE	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Family Planning Self Reliance No. 515-0168							b																	
Strengthening Democracy No. 597-0003								b																
Regional Administration of Justice No. 597-0002, 598-0642								b																
International Executive Services Corps No. 515-0257								b																
ESR VIII - Economic Stabilization Fund No. 515-0240											b													
Training for Private Sector Development No. 515-0212											b													
Central American Peace Scholarships No. 597-0001, 515-0242							b				b													
Northern Zone Consolidation Project No. 515-0235											b													
Support to PVO's No. 515-0252											b			c										
Forest Conservation (BOSCOSA) No. 515-0255					b												c							
Nontraditional Agricultural Export No. 515-0237							b												c					

a: Project Authorization Date
b: PACD
c: New PACD

PROJECT NUMBER\TITLE	FY92				FY93				FY94				FY95				FY96				FY97			
	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Regional Agricultural Higher Education No. 596-0129															b									
Reproductive Health Consolidation No. 515-0261		a													b									
Forest Management No. 515-0243																	b							
Financial Services No. 515-0247														b				c						
Forestry Regulation for Sustainable Management No. 515-0263						a												b						
Native Tree Reforestation No. 515-0262				a															b					
Justice Sector Improvement No. 515-0244								b													c			
Industrial Development No. 515-0272									a															b
Biodiversity Protection and Management Training No. 515-0274												a												b
Public Demand for Environmental Services No. 515-0275														a										
Policy and Training Support No. 515-0241																								

a: Project Authorization Date
b: PACD
c: New PACD

	FY92				FY93				FY94				FY95				FY96				FY97			
PROJECT NUMBER\TITLE	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Central American Peace Scholarships (CAPS II) No. 515-0254																								
TOTAL PROJECTS (number) (at end of FY 4th Quarter)				23				19				14				12				6				5

a: Project Authorization Date
b: PACD
c: New PACD

Table 3: USAID/Costa Rica LOCAL CURRENCY PORTFOLIO - PROJECT TIMELINE

	FY92				FY93				FY94				FY95				FY96				FY97			
PROJECT NUMBER/TITLE	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
School Refurbishment					b																			
FEDECOOP							b																	
Housing (BANHVI)								b																
BCCR Lines of Credit								b																
Customs Support *									b															
Reform of the State *									b															
Labor Mobility									b															
Coope California									b															
Northern Zone Consolidation ** No. 515-0235												b												
Special Development Fund (SDF)												b												
FINTRA (privatization NGO)														b										
CODESA Divestiture														b										
Humid Agriculture School (EARTH) **																b								
BCCR Bond Scheme																	b							
Forest Management ** No. 515-0243																		b						
Support to Projects (PD&S)																				b				

	FY92				FY93				FY94				FY95				FY96				FY97			
PROJECT NUMBER/TITLE	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
FUNDEX (Export Promotion)																					b			
Policy and Training Support (PATS) ** No. 515-0241																								
Central American Peace Scholarships (CAPS) ** No. 515-0254																								
Operating Expenses																								
PL 480 Section 108																								
BANCOOP																								
BANEX																								
Banco del Comercio							a																	
TOTAL PROJECTS (number) (at end of FY 4th Quarter)				22				21				15				11				8				6

* After PACD Activities will be financed under PATS Project
** Counterpart for dollar projects.

Note: This list covers those projects for which the Mission has complete or partial responsibility for management and oversight. It does not include any GOCR sector programs nor all of the old trust fund activities.

a: Project Authorization Date
b: PACD
c: New PACD

SECTION III: ENVIRONMENT

II.C. Central and Regional Projects

In view of declining staffing levels and increasing accountability, USAID/CR has established a policy of non-acceptance of new centrally- funded projects that are outside its strategic focus, and of acceptance of strategically related projects only when the originating Bureau assumes all development and management responsibility for the activity. A study on the impact of centrally-funded projects determined that these impose a heavy management burden on the USAID staff; that the staff does not have adequate expertise in scientific fields to render meaningful supervision; that, while not debating their merits, the scope of these projects frequently falls beyond the purview of our strategic objectives and therefore represents a departure from the current A.I.D. management emphasis on focussing the portfolio; and finally, the projects create a real possibility of management vulnerability. Consequently, the USAID concluded that it will not be able to accept the management of any additional centrally-funded projects without a clear agreement as to how Washington, without any reliance on the USAID Mission, will carry out a careful analysis of, and provide the necessary administrative support and financing for them. This position has been articulated to AID/W in San Jose 5071 of June 1992.

Additionally, USAID/Costa Rica has suggested to AID/Washington a possible solution of this issue by means of a contract of the day-to-day management of centrally-funded activities through a mechanism similar to the one used by R&D in the Philippines. Under this arrangement, R&D would be directly responsible for executing the necessary grant agreements with local grantees, and the locally contracted institution would be responsible for the daily management and oversight of activities under these agreements.

In general, the USAID Mission finds that regional projects tend to be more useful in terms of strategic needs and less burdensome on a diminishing staff. Issues regarding these projects tend to relate more to the question of plans for continued funding for ongoing projects that the USAID/CR implements, such as RTAC and the Regional Administration of Justice Project.

III. Environment (Biodiversity and Deforestation)

A. Major Environmental Challenges

The richest sources of biodiversity on land are wet and moist tropical forests. Nearly 90 percent of the land area of Costa Rica was originally covered with such forests, and this partly explains why, in spite of its small size, the country remains host to five to seven percent of all plant and animal species currently identified on the planet. This includes 265 species of mammals, 850 species of birds, 158 species of amphibians, 215 species of reptiles, 130 species of freshwater fish, 366,000 species of insects, and some 13,000 species of plants including 1,500 species of trees. The principal threat to this major biological legacy is the loss of forest habitat. Over Costa Rica's history, settlement has always been synonymous with deforestation, and in 35 years (1950 to 1985), Costa Ricans managed to strip the natural forests that covered one-third of the country. The remaining forests are now being lost at a rate twice the world average.

The principal conservation challenge facing Costa Rica is that of stemming this loss of forest habitat--the demand for and conversion of forest land to alternative uses. Until the 1960's Costa Rica was a frontier society retaining large tracts of forest land legally open to homesteading. Successive government administrations facilitated colonization of these lands as an expedient response to economic problems and social conflicts. Thus, public policies traditionally encouraged distributing and settling forested land, so much so that virtually all the country's productive forests--forest land outside the national park system--are held by private owners. These landowners rarely consider their holdings "forests" but rather "farms" or "ranches" which may or may not have trees. It is they who decide whether to cut standing forests, and their decisions are based primarily upon their perceptions of the expected returns to forestry vis-a-vis alternative land uses. The relative returns to forestry have not been good, as evidenced by the fact that 80 percent of Costa Rica's deforestation since 1966 can be attributed to conversion of forest land to either pasture or annual crops. Logs are essentially a by-product of land clearing, and very few are actually harvested for downstream processing.

B. Progress Made

Costa Rica's response to relatively recent concerns regarding deforestation and the loss of biodiversity has been twofold. The first step was the establishment of a large array of national parks and biological reserves utilizing land still in the public domain or subsequently repurchased from private parties. It was mainly through this program that the country gained worldwide recognition as a leader in tropical conservation during the 1970's and 1980's. The macroeconomic problems of the 1980's reduced the level of GOCR support for the national park system. This forced the system's proponents to look increasingly to international donors for the financial support required to expand and maintain the system. This approach proved reasonably successful over the short-term, but the alternative (and at times competing) objectives of so many contributors have left a legacy of financial and institutional confusion, not to mention an unhealthy dependency on such "outside" money to sustain the system. In 1992 the GOCR used approximately $2 million of Danish resources to expand the biologically important Tortuguero national park. It also declared a new national park of 137,000 hectares in the Central Volcanic Cordillera Conservation Area and, in collaboration with Nicaragua, declared the entire San Juan river basin international parkland. A new law reaffirming the conservation area approach to park management was not passed by the Costa Rican Legislative Assembly, but the approach is taking root under the auspices of an executive decree issued by MIRENEM. During 1993 USAID/CR, in collaboration with other interested donors, intends to focus increasing attention and resources on the financial management problems and related institutional issues confronting the national park system.

The second step was the institution of a comprehensive regulatory regime designed to control the cutting of trees by those individuals owning forested land lying outside the national park system. While flying in the face of the long-standing social, economic and policy environment which encouraged deforestation, these command and control measures have done little to improve (and have probably exacerbated) the low returns to forestry as a land use. It is scarcely surprising then, that actual cutting is running two to three times the level formally approved by the government's General Directorate of Forests (DGF).

C. Recommended Follow-up

In this Action Plan, USAID/Costa Rica has identified the "maintenance of natural forest habitat" as one of its three strategic objectives. Towards this end, resources provided under the on-going FORESTA, BOSCOSA, Tortuguero, Native Trees Reforestation (OTS) and PATS projects will improve the management and integrity of the national park system by supporting GOCR efforts to 1) increase and utilize revenues generated from the parks themselves to finance park management and protection costs, 2) institute cost effective protection programs, and 3) stabilize the natural environment in the buffer zones surrounding the parks. USAID Mission resources will also be used to assist the GOCR and the private sector in instituting a legal, market and price environment conducive to sustainable private forestry. This will require improving the returns to forestry as a land use by increasing stumpage values of standing timber and farm level revenues while decreasing the related farm level cost structure. These ends, in turn, will be sought by 1) eliminating current barriers to entry and distortions to improve domestic timber market efficiencies, 2) by supporting the development of international markets for Costa Rican forest products, and 3) decreasing the transactions costs inherent in the current regulatory regime. The USAID Mission and the GOCR recognize that such measures, while essential for stabilizing forest cover and maintaining biodiversity over the long term, could inadvertently increase pressures to cut standing forests at unsustainable rates over short term. Forestalling this potential negative side effect will be the focus of a proposed mid-1993 project start - the Forest Enforcement for Sustainable Management (FORESUM). In addition to FORESUM, this effort is expected to require modest financial resources from the on-going FORESTA, BOSCOSA, and PATS projects. As in most other activities replete with policy issues, the creation of this improved environment is expected to pull quite heavily on USAID staff resources.

SECTION IV: RESOURCE REQUIREMENTS

IV. Resource Requirements

Introduction

In March 1991, USAID/Costa Rica submitted to the LAC Bureau a revised USAID staff reduction plan for the period 1991-96. The plan which conforms to the expected phase-down in program levels, was reviewed and approved by the Bureau and the Embassy. USAID continues to follow that plan, and the tables in this year's Action Plan reflect those decreases.

While the USAID does not intend to retreat from that plan, it does wish to signal strongly that the size of the workforce compared to USAID's program responsibilities is becoming dangerously small. Although current annual program levels have fallen from $74 million in 1990 to $6 million in 1993, the combined pipeline of Dollars and HCOLC programs of more than $320 million belies the apparent decrease in management requirements. Progress on reducing the HCOLC program burden is discussed later in this narrative. The USAID has stated in its Internal Control Assessment that staffing reductions which are more abrupt than those presented and previously agreed to, will either increase vulnerability beyond acceptable levels or trigger premature project terminations and consequent waste of effort and funds expended to date.

In addition, staff decreases are proceeding at a faster rate now than in previous years. If the Agency eventually elects certain options, such as the regional accounting center discussed elsewhere in this Action Plan, the sooner they are implemented, the more experienced staff there will be to adequately manage them.

Budget Overview

OE budgets are slated to decrease 31 percent nominally, 44 percent in real terms, over the 5-year period 1991-95, contained primarily by the planned reduction in personnel levels by 39 percent, from 139 positions in 1991 to 84 positions in 1995. We expect that in the case of major OE or personnel cuts exceeding those already planned, the Agency will have to confront serious vulnerability issues, consider relocating regional programs outside of Costa Rica (USAID currently supports 23 regional US and FSN positions which are additional to USAID Mission staffing levels), and give up the present USAID building, which, since it was built with HCOLC, would revert to the GOCR.

Staffing Levels

The USAID/Costa Rica staff reduction plan (March 1991) proposed the following end-of-year headcount ceilings:

Headcount Ceilings

	1991	1992	1993	1994	1995
USDH	19	14	12	10	10
USPSC	13	14	13	13	10
FSNDH	18	18	16	15	14
FSNPSC	89	83	75	60	54
TOTAL	139	129	116	98	88

Staffing levels are actually projected to decrease somewhat faster than the above ceilings. The figures given below represent staffing projections in terms of end-of-year headcounts, not FTEs. The tables include both OE and project-funded staff. The budget tables below are, of course, based only on the OE funded personnel.

Staffing Projections

	1991	1992	1993	1994	1995
USDH	19	14	12	10	9
USPSC	13	14	13	10	7
FSNDH	18	18	15	15	13
FSNPSC	89	83	73	63	55
TOTAL	139	129	113	98	84

The foregoing numbers will result in a 50% reduction in USDH/USPSC staff from 1991 to 1995, and a 39% reduction in overall USAID Mission staffing during the same period.

Budget Levels

As a consequence of these staff reductions and other cost savings, OE budget levels are also projected to decrease.

OE Obligations
($ Thousands)

	1991	1992	1993	1994	1995
Dollars	715	803	1,119	1,773	2,000
OE Trust	3,546	3,003	2,631	1,794	940
Total	4,261	3,806	3,750	3,567	2,940

Taking into account the effect of inflation, OE purchasing power is decreasing even more rapidly. Assuming a 5% inflation rate per year, the real purchasing power in 1991 Dollars of the foregoing nominal levels is as follows:

Total OE Budget Real Purchasing Power
(Thousands of 1991 Dollars)

1991	1992	1993	1994	1995
4,261	3,612	3,384	3,058	2,394

The levels given above represent a 31% overall OE budget nominal decrease between 1991 and 1995 and a 44% overall real purchasing power decrease over the same period.

Trust Funds

This OE plan projects a decreasing share of the USAID OE budget to be paid from local currency trust funds. In accordance with last year's ABS instructions, this share decreases to 15% of OE budget by FY 96, according to the following schedule:

OE Trust Fund Share of Total Budget

1991	1992	1993	1994	1995	1996
83%	79%	70%	50%	32%	15%

This would result in the trust fund unobligated year-end balances shown below. These balances assume two additional increments of 100 million Colones each at the end of FY '93 and FY '94. These increments are presently programmed, but not yet received. Furthermore, their availability would become more doubtful if there are no further ESF cash transfers, due to the reluctance of the GOCR to monetize local currency absent offsetting foreign exchange increases.

OE Trust Fund End of Year Unobligated Balances
(Equivalent $ Thousands)

	1991	1992	1993	1994	1995
Balance	10,000	9,600	8,500	8,400	8,560

Under these assumptions, the OE trust fund would be reduced to a low of 8.4 million Dollars equivalent at the end of FY 1994, after which annual interest income would be greater than annual expenses, and it would start to grow, reaching 9.5 million Dollars in 2000. However, if the planned FY '93 OE Trust/Total OE ratio (.70) were maintained in outyears, the OE Trust would be fully obligated at the end of FY '98.

Operational Options

There are a number of options being considered by the USAID Mission which would have varying effects on the scenario described above.

First, there is the possibility, discussed in Annex 1, that the Agency would establish some sort of regional accounting and support operation in Costa Rica. This would necessitate an increase over currently planned levels in both in the budget and in staffing. The regionalization of this and/or other functions, such as IRM, RIG and ROCAP, could increase the efficiency of A.I.D. operations in Central America, but unless AID/W makes decisions to put them into effect soon, those opportunities will be lost.

Second, there is the possibility, mentioned in the overview, that the USAID Mission might establish a US/Costa Rica Bilateral Foundation to carry on after A.I.D. is gone or reduced to a one or two person post. Although this would have no effect on the budget plans for the Action Plan period, it would be a potential use for the residual amount in the OE trust fund, which could possibly be granted to the Foundation.

Disengaging from the HCOLC Programs

The USAID Mission is aware of the need to decrease its involvement with its portfolio of trusts, endowments and credit lines which were created in past years with PL480 and ESF-generated HCOLC. The Robbins/Silverman Report, completed in 6/92 identified 37 activities comprising approximately $275 million of HCOLC. The following summary classifies these activities into five broad categories and describes USAID progress to date in closing out its management responsibilities for the activities. Significant progress has been made so far, and the USAID Mission is on a learning curve for resolving these questions which will enable it to increase the rate of progress in the future. It is not possible to accurately predict when this effort will be completed, but it will probably have to be done in the next one-and-a-half to two years while staff size is sufficient.

Category 1 Trusts and Endowments

This category comprises nine activities and approximately $105 million worth of HCOLC.

The USAID Mission has thoroughly analyzed the COOPECALIFORNIA/INTERFIN trust and the INCAE endowment and expects closeout actions to be completed in six months. The COOPECALIFORNIA trust residual not already comitted to beneficiaries will be transferred to the A.I.D. FT 800 Trust Fund over the next nine years. The EARTH trust issues will be resolved in the course of the implementing the EARTH DA funded project. The FINTRA trust closeout analysis can begin in approximately two months once the final privatization action, valued at $17 million, is approved by the Legislature and completed. The FUNDEX trust cannot be modified until 1996. There are four other trusts which the USAID Mission has not yet begun to analyze for closeout.

Category 2. Lines of Credit

This category comprises five lines of credit and approximately $65 million worth of HCOLC.

Three of the lines of credit were merged into a private bank liquidity fund at the Banco Central de Costa Rica, and require no further USAID Mission monitoring. The analysis on the remaining two is in process, and closeout actions could be completed within four months.

Category 3. GOCR Sector Programs.

This category comprises thirteen broad activity areas and approximately $57 million worth of HCOLC.

These activities are managed by the GOCR, with USAID Mission oversight. The resources will be exhausted within two or three years. Meanwhile, the USAID Mission monitors the GOCR systems for controlling these activities.

Category 4. AID Program and OE Trust Funds

This category comprises four activity areas and approximately $28 million worth of HCOLC.

These funds which fall under direct USAID control, support Project activities and OE budget requirements. Closeout actions, therefore, are an integral part of managing the USAID Mission's portfolio. Any residual amounts in the Trust Fund will be either turned over to the new Bilateral Foundation, if it becomes a reality, or returned to the GOCR.

Category 5, PL480

This category comprises three activity areas and approximately $20 million worth of HCOLC.

Closing out these activities presents the most difficult challenge of all the categories. There are currently two Section 108 loans which will go on for at least 7 years, and have the potential to be renewed for another 20 years. The remaining PL480 Title I and Section 416 portfolio is equal to about $15 million and is comprised of some 75 slow-moving, GOCR-managed projects which, at current expenditure rates, will not be exhausted for 10 years. Guidance received from AID/W during 1992 recommended turning U.S. Government oversight responsibilities for this portfolio over the local USDA representative. However, this does not appear to be feasible. Subsequent discussion with GOCR officials responsible for administration of the PL 480 local currency regarding ways to reduce the number of projects and expedite disbursements have not been productive, given the historical inclination to use PL 480 local currency to fund small, but politically important, projects at the local level.

TABLE 4
USAID/COSTA RICA
SUMMARY PROGRAM FUNDING TABLE
Dollar Program

Funding Category	FY93 Estimated	FY94 Requested	FY95 Requested
Development Assistance			
Mission Strategic Objective #1			
0000 Program Development & Support	85	90	75
0247 Financial Services	750	1,200	1,150
0237 NETS	500	0	0
0241 Policy and Training Support	450	875	875
0212 Training for Private Sector Dev.	800	200	0
0272 Industrial Strengthening	0	400	450
Subtotal	2,585	2,765	2,550
Mission Strategic Objective #2			
0000 Program Development and Support	85	90	75
0241 Policy and Training Support	360	700	700
Subtotal	445	790	775
Mission Strategic Objective #3			
0000 Program Development and Support	114	120	100
0255 BOSCOSA	400	250	250
0263 Forestry Law Enforcement	745	400	300
0262 Native Trees Reforestation (OTS OPG)	0	150	150
0274 Biodiversity Protection and Management Training	0	300	400
0275 Public Demand for Environmental Services	0	0	200

Funding Category	FY93 Estimated	FY94 Requested	FY95 Requested
0241 Policy and Training Support	90	175	175
Subtotal	1,349	1,395	1,575
Non Strategic Objective			
0254 Central American Peace Scholarships II	800	700	700
0261 POP Sector Consolidation	266	0	0
0244 Justice Sector Improvement Project	500	400	450
Subtotal	1,566	1,100	1,150
Subtotal DA	5,945	6,050	6,050
Economic Support Fund	0	0	0
Subtotal ESF	0	0	0
P.L. 480 Title III	0	0	0
Subtotal	0	0	0
PROGRAM TOTAL	5,945	6,050	6,050

SECTION V: MISSION AND AID/W INITIATED ISSUES

V. USAID Mission and AID/W Initiated Issues and Talking Points

The following are points of discussion or issues which the USAID Mission believes merit consideration during the Action Plan review process.

1. Year of Decision. As noted throughout this paper, a number of basic decisions must be made this year. No decisons will lead us to assume the worst case scenario.

2. The USAID Building. It is important to note that because of the reductions in the Costa Rica program there will occur a point at which continued use of the USAID building no longer will be justifiable based on the size of the USAID Mission. Unless AID/W makes some decisions to relocate activities to San Jose, the USAID building will then revert to the GOCR, since it was originally constructed with HCOLC.

Costa Rica has already consolidated its offices in floors two and three of the A.I.D. building, leaving vacant 5,300 square feet of useable floor space on the first floor. One possible additional use of the USAID building would be to house a regional accounting office for Central America and Panama. This issue is discussed in more detail in Annex A.

3. Panama Accounting. Assuming for the moment that a Regional Accounting Office will not be established in Costa Rica, it is important to note that Costa Rica is scheduled to end the provision of voucher processing services to Panama in September 1994. This is because staff drawdown plans call for the elimination of a USPSC B & A Officer in the Controller's Office in December 1994. This will reduce the USAID Mission US Controller staff to one USDH Controller and one USDH Deputy. At that point, Panama will have either to add staff in Panama to process its own vouchers, provide a USDH position against its staffing ceilings for Costa Rica, or accept the transfer to the Panama OE budget of the USPSC B & A position. The USAID Mission would appreciate guidance on this matter.

4. ILANUD. USAID/Costa Rica has proposed to AID/W a second phase insitutional strengthening grant to ILANUD. This grant, which, if approved, would be in the range of $5.0 to $8.0 million and would be executed over a three to five year period. Assuming grant approval, a decision needs to be made as to which organizational unit within the LAC Bureau (i.e. LAC/DI, ROCAP, or USAID/Costa Rica) would be responsible for grant oversight and implementation.

VI. ANNEXES

Annex A
USAID/Costa Rica 1995 Action Plan

USAID/COSTA RICA AS A REGIONAL ACCOUNTING STATION FOR CERTAIN CENTRAL AMERICAN MISSIONS

In June, 1992, LAC/DPP Controller asked the Costa Rica Controller for a quick review of the issues involved in transferring certain financial management functions from other Central American missions to a regional office to be established possibly in Costa Rica. The detailed review was included in the 1994 ABS as an annex

However, assuming for a moment that a regional accounting office will not be established in Costa Rica, it is important to note that Costa Rica is scheduled to end the provision of voucher processing services to Panama in September 1994. This is because staff drawdown plans call for the elimination of a USPSC B & A Officer in the Controller Office three months therefter, in December 1994, which will reduce the USAID Mission US Controller staff to one USDH Controller and one USDH Deputy. At that point, either Panama will have to add staff in Panama to process its own vouchers, or provide a USDH position against its staffing ceilings for Costa Rica, or accept the transfer to the Panama OE budget of the USPSC B & A position.

Since the initial request for information was made, however, the scope of what might constitute a regional support center in Costa Rica has been broadened. In addition to the financial management function - contract services, legal and certain administrative support services would also fit the regional concept as more bilateral programs move toward MDC status. This likewise fits the Agency's need to further reduce overal FTE levels and live within ever constricting Operating Expenses levels. At the present the Bureau is establishing MDC Support Service centers in La Paz and Quito. The concept, therefore, is not alien to the Bureau and should be viewed as a natural phenomenon resulting from maturing development programs in the Central American region as well as, perhaps, the Caribbean Basin countries where USAID has development programs.

At the hub of the proposed service center concept would be a Regional Accounting and Finance Station (RAFS). RAFS would feature a state-of-the-art automated accounting and financial reporting system that would be on-line via modem with client USAID Mission at all times. Data inputs would originate from the serviced USAID Mission, but all formal reporting would be performed by the RAFS to its clients as well as AID/W. Costa Rica inexpensive by international standards. Housing is relatively inexpensive, and good schools are available at about $6,000 per year for tuition. Costa Rica offers the full range of reliable business services, including excellent telecommunications, courier services, and public accounting services. The USAID/Costa Rica office complex, with its modern building and facilities, could serve as a site for additional regional activities, assuming that bilateral USAID Mission staff decrease as planned.

II. REGIONAL ACCOUNTING FUNCTIONS

Costa Rica and Panama have collaborated on Controller functions since December of 1987, and that experience has provided some good lessons on how to regionalize Controller functions. Costa Rica now processes all payments for Panama, while Panama does all of their accounting and reporting. Some additional efficiencies could probably be obtained if certain accounting and reporting functions were transferred back to Costa Rica. The following narrative examines the Controller functions one by one and describes how they might optimally be shared between the client missions and the regional center.

1. Accounting

There are basically two ways of regionalizing an accounting operation. One way, transferring all accounting functions to a regional center, has been tried in Africa. This approach tends to introduce delays in processing funding documents. A second approach, which is described below, keeps certain accounting functions at the client USAID Mission, and transfers only part of the accounting function to the regional center. This approach relies on good telecommunications links which exist to a greater degree between Central American countries than between some African countries, but it reduces some of the disadvantages to the client USAID Missions of transferring their accounting operations.

Accounting comprises:

a. the posting of OE and Project reservations, obligations, earmarks and committments, and the establishment of project budget elements;

b. the posting of Advice of Charge (AOC);

c. reconciliation with Treasury disbursement records;

d. reporting to AID/W;

e. reporting to mission management.

The functions listed in item a., above, are best done at the client mission. This requires that client mission computers be linked via modem to the regional office computers. The technical aspects of this link are discussed later.

The funds clearance process takes less time if documents are posted at the originating post because there is no need to courier or FAX the documents back and forth, and because problems can be more easily resolved if Controller personnel are located in the same place as the originating officers.

The posting of these types of transactions, i.e., reservations, etc., requires that information be abstracted from written documents and fit into the standard categories defined by the MACS. The accountant who is abstracting this information needs feedback from the

MACS, for, example, feedback on sufficiency of funds in the project budget element. The accountant also frequently needs feedback from the originating office, for example, which budget elements to increase or decrease. If the feedback from the MACS indicates a problem, the accountant can more easily resolve the issue if (s)he can communicate easily with the originating officer. Other types of issues can arise with the substance of the document, for example with the payment provisions, which could delay posting into the MACS. These types of problems also can be more easily resolved when the Accountant has easy access to the originating officer.

Panama USAID Mission is now posting all of its own accounting documents, and client satisfaction has increased compared to when Costa Rica was posting them. This treatment is intrinsically faster and more satisfying than sending documents to another post.

Panama Controller has further improved the efficiency of this process by having the Financial Analysts (FA) post all project documents. This eliminates the delays that can result from having Financial Analysts perform a substantive review, while Accountants only check for funds availability and post. Accountants often detect problems after the FA review which then must be resolved by a three way negotiation between the Accountant, the FA and the Project Officer. Having the FA complete both the review and the posting reduces the number of persons involved in problem resolution, and, because the FA becomes familiar with the requirements of the MACS, results in better advice being given to the Project Officers when they are initially drafting their documents.

The original agreements, contracts and other supporting documents would be kept at the originating mission, and copies needed to support payments would be sent to the paying office.

Keeping this set of functions at the client USAID Missions will make the regional accounting concept more acceptable to client USAID Missions.

USAID Mission reporting is easily accomplished by the client mission via its modem access to the MACS data base in the regional office. The rest of the accounting functions can be handled by the regional office. AOC posting, reconciliation with Treasury, and AID/W reporting are functions which would probably produce economies of scale.

2. <u>Payments</u>

The easiest function to transfer to a regional office is payments. In the Costa Rica/Panama system the modem link between the regional and the client mission computers enables the client mission to log the vouchers directly into the MACSTRAX system at the regional office, thus obviating the need for separate voucher logs. Vouchers are sent by courier to Costa Rica where they are processed and certified. The Costa Rica paying office verifies funds availability via MACSTRAX access to the Panama MACS database before certifying the voucher. Check issuance data is available to the client mission at all times via its link with the Costa Rica computer.

Costa Rica has good telecommunications links with RAMC Mexico. Payments is another function which would probably produce economies of scale. It is also possible that consolidating A.I.D. payments in a single regional office would simplify RAMC's job by reducing the number of clients with whom it would have to interact.

3. Other Functions

There are other functions which it would not be feasible to transfer. Primary among these are budgeting, audits and pre-award reviews, project design and financial management assistance to technical offices in developing implementing documents. Therefore, there would be a continuing need for Controllers in these countries, even after the transfer of payments and accounting.

II. IMPACT ON RESOURCES

1. Impact on USDH and USPSC Resources

The main advantage in transferring functions as described above would be to reduce US manpower needs in the client missions in the areas of payments processing, accounting and maintenance of the automated MACS systems. The need for Certifying Officers additional to the Controller would be eliminated, and the need for B & A Officers managing the accounting and reporting would be reduced.

Costa Rica US Controller staff will decrease to two persons by December of 1994. If regional functions were added probably one additional US manager would be needed for the first one or two Missions added, and an additional USDH, for a total of two additional USDH, if three or more Missions were added. Costa Rica's EXO staff would have to be kept at the FY 1994 projected levels or, possibly increased. Any US citizen increases above those already projected for Costa Rica would be subject to NSDD 38 approval, and the ambassador would also have to approve FSN staffing increases.

A client mission the size of Costa Rica could probably reduce to two US employees.

2. FSN Manpower Needs

Costa Rica's FSN staff would have to be expanded. College educated accounting personnel are plentiful in Costa Rica, and the Costa Rica USAID Mission already has a seasoned staff of FSN's who could train new employees. Three of Costa Rica's FSN's are thirty year veterans, and the average time with A.I.D. of the remainder is about two and a half years.

FSN manpower needs would be reduced in the client USAID Missions, eliminating all payment personnel, and some of the accounting staff.

The FSN accounting staff increases in Costa Rica would be slightly less than the decreases in the client missions. The Costa Rica payments staff would increase to about the same extent as decreases in the client missions. To take over the payments function for a mission with 7,150 vouchers per year would require about ten voucher examiner positions.

The greatest benefit from the change would accrue where missions had difficulty in finding or retaining qualified FSN staff, and where the US management resources were insufficient to manage a sizeable FSN staff.

3. Space

Space needs for Controller staff would be reduced in the individual Missions, but this would probably not produce significant cost savings.

Costa Rica has ample first quality office space, assuming that bilateral technical staff decline as projected. Costa Rica has already consolidated its offices in floors two and three of the A.I.D. building, leaving vacant 5,300 square feet of useable floor space on the first floor.

4. Automated Equipment

Automated equipment needs would be reduced in the individual Missions, but this would probably not produce cost savings since their mainframe machines would probably not be changed.

Costa Rica has an adequate mainframe and data storage capability to handle fifty more Missions the size of Panama. Costa Rica's MACS database requires 110 megabytes of storage. Panama's requires 30 megabytes. Costa Rica has 1,500 megabytes of available data storage. Excess terminals from the individual missions would have to be transferred to Costa Rica, and possibly a few extra terminals would have to be acquired.

5. Office Equipment

More locally manufactured desks, chairs and file cabinets would have to be procured since it would probably be cheaper to procure than to ship bulky, low value items from one country to another.

6. Telecommunications

Telecommunications between Costa Rica and Panama are excellent, but between Costa Rica and other Central American countries may not be quite as good. We think that the telecommunications link between Costa Rica's and Panama's computers runs by landline to an exchange in San Jose, then by microwave to the Panama border, and then by landline again to the Panama USAID.

The 24 hour phone link to Panama costs approximately $12,000 per year. The facsimile cost between the two countries is approximately $6,000 per year, and regular telephone calls cost approximately $38,000 per year. All totalled, telecommunications of all types costs about $56,000 per year. The cost of telephone calls and facsimile transmissions should decrease significantly now that Panama is doing their own accounting.

7. Document Courier

Reliable document courier service is important in order to pay vouchers on time, and to assure proper receipt at the paying station of obligation and commitment documents. Document courier service is very good between Costa Rica and other CA countries. Courier service between Costa Rica and Belize may not be as good because of fewer flights. Courier service between Costa Rica and Panama is running about $8,000 per year, but this will decrease significantly now that Panama is doing its own accounting.

In summary, because of the reductions in the Costa Rica program there are opportunities to regionalize certain functions which could increase the efficiency of A.I.D. operations in Central America, but unless AID/W makes some decisions those opportunities will be lost.