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CABLE ADDRESS NATECO

**ROBERT R. NATHAN ASSOCIATES, INC.**

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**November 30, 1966**

**Mr. Stanley R. Hevin  
Contract Division  
Office of Management  
Bureau for Latin America  
Agency for International Development  
Department of State  
Washington, D. C.**

A. T. D.  
Reference Center  
Room 1656 NS

**Dear Mr. Hevin:**

Contract AID/la-220 provides that the contractor shall submit a final report describing the services rendered within 30 days after completion of the field work. Copies of such a report, summarizing the contractor's findings, conclusions and recommendations relating to the work performed, are transmitted herewith.

We have also transmitted five copies to Mr. Lawrence Smith, Public Administration Advisor of the U.S.AID Mission to Costa Rica.

**Sincerely,**

**Edward D. Hollander  
Vice President**

November 1966

REPORT ON TWO YEARS OF ECONOMIC ADVISORY WORK

IN COSTA RICA

BY ROBERT R. NATHAN ASSOCIATES, INC.

Robert R. Nathan Associates, Inc. entered into a contract on August 17, 1964 with AID (Contract AID/1a-220) to provide guidance and assistance to the Government of Costa Rica in connection with its national economic development plans. The Contract provided that three economists should work in Costa Rica for a period of two years. Subsequently, by amendment to the Contract near the middle of 1965, a fourth economist was added to the group. These economists were attached to the National Planning Office (Oficina de Planificacion) which is in turn attached to the Office of the President of the Republic.

The original group of economists arrived in September 1964 and served for approximately two years each, including a fiscal policy specialist, an agricultural economist and an industrial economist. The fourth member of the group, who arrived in Costa Rica at the beginning of June 1965 and served there for 15-1/2 months, had the function of development planner.

The work of the group in Costa Rica was supplemented by back-up services performed by the home office of the contractor in Washington and by supervisory visits of Robert R. Nathan, president of the firm, as set forth in the periodic progress reports.

Article I (C) of the Contract requires that a final report of the contractor, to be submitted within thirty days after completion of contract field services, shall contain "a record of activities completed, objectives achieved and basic data necessary to evaluate the effectiveness of the operation." The objectives of the project, as laid down in Article I (A) of the Contract

were "(1) to provide guidance to the Government of Costa Rica in the formulation of national fiscal policies to support its development plans and (2) to assist the National Planning Office of the Government of Costa Rica in the formulation of its development plans for the industrial and agricultural sectors of the economy."

It was implicit in these objectives that the guidance and assistance thus provided should be a continuous operation, covering (i) many day-to-day problems of policy and planning, (ii) a smaller number of medium-term projects and (iii) relatively few major studies and sets of recommendations.

The medium-term and larger projects during each six-months period -- headings (ii) and (iii) -- have been listed in the periodic progress reports of the contractor and are further summarized below. But, while these reports of the group's activities do not list individually all of the work on day-to-day problems that would fall under heading (i), it should be emphasized that in the aggregate these activities, in the contractor's opinion, formed a very important part of the accomplishments. This work, in itself, contributed guidance and assistance in the functioning of the Planning Office, and it also contributed to the relationship of trust and confidence which enabled the Advisory Group to function advantageously and usefully on larger and more formal or specific projects.

The nature of the group's work during the whole period of the Contract dealt more with problems of implementation rather than formulation of the national plan of economic and social development, since the formulation of the first overall plan had essentially been accomplished before the group's arrival. It was found that developing policies, devising organizational forms and urging other implementing measures to achieve the goals of the plan were highly demanding functions in the whole process of development. The Advisory Group also advised and assisted the Planning Office in the continuing problems of modification of the plan

which arose from the availability of new data and from discussions of the plan in both official and unofficial circles.

During the first nine months of the Contract, before the arrival of the development planner, the guidance provided to the Government of Costa Rica was specifically in the fiscal, agricultural, and industrial fields, as distinguished from the full range of economic policy, coordination and other program implementation tasks with which the Planning Office was confronted. The members of the Nathan Economic Advisory Group recognized these limitations on the scope of their work -- i.e., that the broad or overall coordination of economic activities was not included.

An important part of the usefulness of the economic advisors is considered by the contractor to have been the training of middle level Costa Rican staff members that resulted from their joint work on specific operational tasks. Members of the Advisory Group worked not only with Planning Office personnel, but also in close collaboration with staff members in those ministries with operating responsibilities in their respective fields. The degree of previous training of these Costa Ricans in economic analysis, and especially their ability to deal with quantitative techniques, varied considerably. The members of the team attached great weight to the matter of training their counterparts for carrying on without outside assistance, and it is felt that important results were achieved in this direction.

These informal training activities were entirely apart from the formal educational courses that were given by individual members of the Group in Costa Rican institutions of higher learning, which have been mentioned in our progress reports.

The change of administration that occurred during the period under review had a major impact on the role of the Planning Office, and in turn on the activities of the Advisory Group. For some time prior to the election which took place in February 1966, and, even more significantly, during the period following the election and prior to the inauguration of the new administration in May, there was a lack of new initiatives in economic policy and programming activity. Although this period of lesser activity curtailed opportunities for the advisors to assist in program development and implementation, it was possible for them to play a significant role in the transition.

This role may be described as one of assembling, organizing and presenting data on economic trends and emerging economic problems in an objective, professional manner and making the results available to the incoming administration in the form of aide memoires, in certain cases supplemented by conferences and discussions. While the impact of the advisory work on program preparation and implementation was less than it might have been had the advisors worked for two years with a single administration, the contractor derives satisfaction from the belief that it was possible to help provide a link during the transition and thereby cut down the loss of time and momentum even though the new regime may wish to introduce important new approaches to economic development.

There is presented below a summary listing of major specific work projects on which the Group were engaged. Thereafter is included some discussion of the role and tasks of economic planning in Costa Rica, based on the Group's experience of two years' participation in and observation of planning operations there.

### Major Studies Made

In the field of general development planning, the Advisory Team first prepared a memorandum in February 1965 entitled "Program for Economic Development", based on the research and analysis undertaken by the Group during its first five months and reflecting the members' summary evaluation of the economy and their judgment as to policies and actions needed in order to realize the country's growth and development potential. Subsequently, the chief relatively large-scale studies accomplished included:

(a) A series of memoranda setting forth the design and structure of economic models for development planning, with close application to Costa Rica. These memoranda analyze such matters as national fiscal requirements in relation to the amounts of investment and other expenditures contemplated in the 1965-68 development plan, and the needs for external financing in the same analytical framework.

(b) A long study of the problem of coffee surpluses, with its bearing on many aspects of Costa Rican economic life, meant as a basis for discussion in the government and also as an example of the kind of economic analysis needed in several areas of the Costa Rican economy.

In the field of fiscal policy the main work under the heading of major studies consisted of the long memorandum to the Minister of Hacienda, dated July 1, 1966, which set forth the lines to be followed in a comprehensive program of fiscal reform.

Many other memoranda or reports had been submitted earlier, from time to time, recommending actions to reduce or eliminate the budget deficit, recommending specific measures

for improving the equity or efficiency of revenue collections and recommending measures for improving the control or effectiveness of government expenditures. A large part of the work of the fiscal policy advisor, furthermore, consisted not of large specific items but rather of constant day-to-day contact in which the advice and guidance given was consistent with and was directed ultimately toward the program of reform outlined in the July 1966 memorandum. This included work both before and after the preparation and submission of that memo.

There were also issued two studies on the public external debt. In one there were assembled data on all existing debts of this category, whether of the Government or of other official entities, and detailed projections of future service requirements on these debts were drawn up. The other was a study setting forth tables, constructed with the aid of a computer, for the calculation of the real "cost" of a loan under various hypothetical conditions as to the terms of the loan (interest rates, grace period, etc.) and as to the existing social interest rate in the economy.

In the field of agriculture, again, a major portion of the economist's efforts were spent on day-to-day activities of type (i), at least a third of his time being spent working closely with the Costa Rican technicians who prepared the projects on agricultural exports which were included as an annex to the Agricultural Development Plan. Most of the basic studies and work on the Agricultural Plan proper had been completed before the Nathan Group arrived, and a preliminary draft had already been written. However, the agricultural economist worked with and assisted the technicians of the OFIPLAN and the members of the public and private review committees on the revision of the preliminary Plan. Later a great deal of work of a day-to-day nature was carried

out in an effort to achieve the implementation of the Plan and to foster the development of those export products which are an important part of the overall Agricultural Plan.

A major specific study was concerned with the activities of farmers who had borrowed from the National Bank of Costa Rica, and the use that they had made of the credit received under that Bank's lending programs. This report, entitled "An Economic Analysis of the Rural Credit Program", was completed in October 1966 (after the date of the last interim progress report). It was not only designed to show whether there is a justification for an additional loan for credit to small- and medium-size farmers through the national banking system, but also carries a number of recommendations on the overall credit needs and credit policies for agriculture. Other larger projects included a report on the wholesale fruit and vegetable market at San Jose; a report on the San Salvador wholesale market which will have an indirect impact on the marketing of Costa Rican products; and a report on the reorganization of the Ministry of Agriculture.

On the industrial side, the industrial economist's efforts, both in day-to-day advising and in the preparation of larger studies and reports, were directed mainly toward achievement of the following:

- (a) Greater emphasis on production for export where comparative advantages could be developed, based on local materials and labor, and less emphasis on assembly and import substitution industries;
- (b) Encouragement of industrial investment through clarification and simplification of industrial development policies and laws, together with a uniform approach to industrial incentives within the Central American Common Market;

(c) The creation of new facilities to assist in the process of industrial development, such as better institutions to mobilize private savings and make them available for investment in industry, and a system of industrial parks in various regions of the country;

(d) Elimination of transportation bottlenecks, especially relating to the Atlantic Province and the Port of Limon, by suitable administrative reorganization and increased investment.

### Role and Tasks of Economic Planning

As the above account makes clear, the Nathan Group has been an integral part of OFIPLAN's operations during the last two years. We have come to certain conclusions regarding both economic policy appropriate for rapid and sustained development, and the appropriate tasks and organization of economic planning. Our views on economic policy have been detailed in many memoranda and some of these have been distributed widely.

We would like to use this last report to discuss some questions of the role and organization of economic planning in the economy of Costa Rica, basing our discussion both on our experience in that country during the last two years and on our experience in many other developing countries. We believe that such a discussion can serve a useful purpose at this juncture of OFIPLAN's affairs, when there has been a marked shift in the official general approach to the nature and usefulness of planning.

### The Tasks of Planning

Much greater emphasis than in recent years is now being placed on the "unplanned" activities of the private sector and much less on those of the public sector. In particular less effort is being

devoted to pursuit and implementation of the 1964-68 Development Plan, considered as an instrument by which to accelerate the growth of the whole economy. This political decision having been made in favor of less comprehensive planning, it is pertinent to ask what are the minimum tasks of planning that must be carried out if the economy is to make the wisest use of its resources.

Such essential tasks come under two main headings: (i) the allocation and administration of resources within the public sector including all autonomous institutions; and (ii) the coordination of fiscal, monetary and price policy to maintain growth and stability in the economy. No other organ of government is charged with these two functions so that if OFIPLAN fails to carry them out they will go by default, with a consequent and unnecessary loss of income and growth.

The proportion of gross national product generated by the public sector in Costa Rica was estimated at 19 percent in 1964, and it is unlikely that this figure can be reduced significantly even by more radical changes in policy than are at present being contemplated. The Central Government therefore has a direct responsibility for efficient resource allocation over almost one-fifth of the economy, and considered purely as the governing body of a large enterprise must be interested in securing such efficiency, much as the board of directors of a large private corporation is interested in securing efficiency over its business empire.

Apart from the clear need to bring administrative efficiency throughout the public sector up to the level of the best local practice (the most important task for OFIPLAN's Department of Productivity and Administrative Efficiency), there is also need for much greater coordination in the investment policies in the public sector. Such coordination should have three main aspects:

- (a) Ensuring as far as possible that the social rates of return on investment in different parts of the public sector (e.g.

electricity and water supply) are equal, so that projects of great merit in one part are not allowed to hang back while more dubious projects are pushed forward;

(b) Ensuring that the full repercussions of any project are taken into account, not only on its part of the public sector, but also on the whole of the public sector, and indeed the whole of the economy;

(c) Ensuring that the programs of execution of different projects are on schedule as far as possible, and if not on schedule at least in phase with each other.

In order to secure this coordination there must be some central place in Government -- and OFIPLAN is an obvious choice -- where the various public investment projects can be compared one with another. The comparison should be made in the light of a careful social and economic evaluation (point (a)), and where the interrelations of the various projects both between themselves and with the rest of the economy and society, are examined in as much detail as possible (point (b)).

It is not necessary that the technical aspects of each project should be gone over in detail by OFIPLAN; that can be left to the planning departments of the public agencies themselves, aided where necessary by technicians from the international loan institutions. But it is necessary that the OFIPLAN staff itself have sufficient technological knowledge in the various fields so that it can form a qualified opinion on the technical and financial feasibility of each project. On this base they can then proceed to the wider economic analysis, substituting an economy-wide perspective for the earlier sectoral viewpoint of the individual agency where the project originated.

This kind of program calls for much closer cooperation between OFIPLAN and the planning offices

of the various ministries and public agencies than has been seen up till now. Consideration might perhaps be given to the creation of a unified technical staff for this kind of public sector planning, relatively transferable between different agencies, and between the agencies and OFIPLAN.

A policy of allowing each ministry and autonomous agency to go its own way with regard to investment expenditure is a recipe for serious losses of efficiency. The alternative of close cooperation would require a well-qualified central secretariat, charged with economy-wide evaluation of projects and with surveillance of the project's implementation. The appropriate departments of OFIPLAN are already in existence (Project Evaluation, and Coordination and Control of Programs) and what needs to be done is to increase both the staff and the authority of these departments.

Since such a large proportion of public sector investment is carried out with foreign funds, the requirement that each agency secure permission from the Central Government before obtaining a loan would be a ready-made instrument by which to enforce the kind of evaluation and control procedure discussed above. There does not need to be any sweeping legal change in order to set up an adequate organization. At the same time this need for central control over loans should also be the instrument by which a close check can be kept on all aspects of the public foreign debt. The organization of public debt control has so far made little progress.

Turning now to the coordination of fiscal, monetary and price policies, it would seem clear that greater reliance on the private sector must entail a greater emphasis than before on these instruments of general policy, assuming that the Government does wish to assume responsibility for the economic growth and stability of the country. The renunciation of those instruments of more direct control over the private sector which are usually associated with interventionist planning means that the Government must lean more heavily

on those that remain; in organizational terms this in turn implies that the Planning Office becomes less of an agency of control (except for the public sector itself, as described above) and more like a Council of Economic Advisors to the President, on the United States model. The prime responsibility of such a body would be the responsible coordination and direction of these general instruments of policy in order to secure sustained and rapid growth.

Major responsibility in the execution of fiscal and monetary affairs lies with Hacienda and the Central Bank respectively, and it is not suggested that there should be any large change in this respect. But at some point high in the Government structure there must be a place in which all these instruments are considered as interrelated parts of one economic policy, and it is not enough to leave such coordination only to meetings of the President and Ministers. Unless these officials have the benefit of the investigations and recommendations that a qualified and full-time secretariat can provide, the meetings must necessarily be hampered by lack of sufficient background material and analysis. We are of the opinion that a serious lack in the public sector is the almost total absence of sustained and deep-searching analysis of its economic problems. Certainly the economic talent exists in the country which could make such analyses, but it is not being utilized nearly enough. As a result the level of public discussion of economic issues is far from satisfactory.

In part this springs from a grave shortage of good economic statistics, but in turn this shortage itself reflects the apparent lack of desire for hard analysis. From the statistical point of view the Costa Rican economy appears as a "black box", to use an engineer's term, concerning which we observe fairly well (though with too much delay) the inflow of imports and the outflow of exports, but whose internal structure is extremely obscure, apart from a few better lit areas such as the public sector. Information on the

crucial variables of the national accounts, such as the all-important division between consumption and investment expenditures, is missing or -- perhaps worse -- figures are produced by arbitrary formulas which will not stand careful scrutiny.

While it is appreciated that efforts are being made to improve the situation, especially in the national accounts section of the Central Bank, the significance of these efforts is not sufficiently appreciated by those who should be the active users of such statistics. As a result they do not have sufficient support by the administrative machine.

It would perhaps be a good spur to the improvement of economic statistics, and to the level of economic discussion generally if there were to be published a six-monthly or quarterly review and analysis of economic conditions. This could be done either by OFIPLAN alone or in association with Hacienda, the Central Bank and the University.

In order to be useful, such a review should contain comprehensive tables of statistics and should follow the policy of describing, in detail, how each statistical series is obtained, so that users can form an independent judgment of its reliability. The economic significance of various trends should be pointed out and their implications analyzed, even if such implications are not necessarily favorable. Although it is obviously asking too much that such a review be critical of Government or banking policy, at least it could alert the (\*) public and the Government to certain danger signals.

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(\*) The Weekly Newsletter of the Central Bank dated August 19, 1966 is a case in point. Here the letter merely commented that the amount of funds in savings accounts in the commercial banks in July 1966 was the highest it had been in the last five years. But the salient feature of the Table to an economist, and a possibly disquieting fact, which should have been pointed out, was that the 1965/66 increase in savings was only  $\text{¢}4,3$  million, compared to previous increments of  $\text{¢}13,7$  million,  $\text{¢}11,8$  million and  $\text{¢}12,4$  million.

A final word about price policy; in an economy as small as Costa Rica's, it cannot be expected that markets will be sufficiently large, for many products, to permit a number of enterprises sufficient to guarantee brisk competition and the lowest possible prices to the consumer. Hence in order to promote the working of a free market economy the Government should keep a watchful eye on monopolistic practices, especially as they are forbidden by the Constitution. In order to ensure a central position of influence and neutrality for such a potentially important body, a department of monopoly control should be located in OFIPLAN and equipped with an adequate staff. This cannot be described as an interventionist measure, since its object would be to bring closer to reality the ideal of a competitive system.

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The minimum tasks that have been described above together constitute a program which would mean an enlarged OFIPLAN (at least on the technical level) but one that would pursue a rather different course than it has up till now. There should be little opposition to such new tasks from the private sector, since their effective implementation should result in an overall improvement in the allocation of resources throughout the economy, to the benefit of the society as a whole.

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Article I (c) of the Contract requires that the contractor submit a report in English to the Government of Costa Rica at the end of each six-month period of the Contract. Under Amendment No. 3 of the Contract it was further required that these progress reports be reviewed by U.S.AID/Costa Rica for compliance with the conditions of the Contract's scope of work, before submission of the cleared report to U.S.AID/Costa Rica and AID/Washington.

Each such progress report was to give an outline of the general work performed by the Advisory Group

during the period, and a "general description of progress being made and problems encountered." Four progress reports were submitted under the Contract which covered the periods 8/17/64 - 2/16/65, 2/17/65 - 8/16/65, 8/17/65 - 2/16/66, and 2/17/66 - 8/16/66 respectively.

Those semi-annual reports in conjunction with this report constitute a description of the work performed by the contractor.