

UNCLASSIFIED

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**DEVELOPMENT ASSISTANCE PROGRAM
CENTRAL AMERICA**

BOOK 6

Chapter XI - COSTA RICA

**DEPARTMENT
OF
STATE**

SEPTEMBER 1973



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BOOK 6

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ACRONYMS

Costa Rica:

- ADP - Agricultural Development Program
- ALCOA - Aluminum Company of America
- BCCR - Central Bank of Costa Rica
- CAN - National Agricultural Council
- CARE - Cooperative for American Relief Everywhere
- CARITAS - Catholic Service Organization
- CESPO - Center for Population and Social Studies
- CIF - Center for Family Integration
- COF - Center for Family Orientation
- CONALDO - National Coordinating Commission for Population and Sex Education

- CRDA - Costa Rican Demographic Association
- GOCR - Government of Costa Rica
- IFAM - Municipal Development Institute
- INFOCOOP - Cooperative Development Institute
- MAG - Ministry of Agriculture
- MCH/FP - Maternal Child Health/Family Planning
- MOE - Ministry of Education
- MOH - Ministry of Health
- PIMA - Integrated Agricultural Marketing Project
- POP/FP - Population/Family Planning
- SSI - Social Security Institute
- UCR - University of Costa Rica

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CHAPTER XI - COSTA RICA

SUMMARY

1. DEVELOPMENT OVERVIEW

Historically, Costa Rica has concentrated its resources on educating its population and improving public services. As a result, the literacy rate among the population is approximately 90%; the mortality rate one of the lowest in the Hemisphere, and the educational system produces a steady stream of skilled manpower.

In the past two decades, Costa Rica has experienced a spectacular increase in population coupled with an accelerating change from a pastoral country to a growing, modernizing society. However, this modernization process has been generally limited to urban areas, and the government has found it necessary to focus its resources and attention increasingly on resolving the widening rural-urban disparity. Private sector investment and the growing concern of government for citizen care and public services have fueled Costa Rica's development. Government development priorities have been expansive, causing increased government influence and investment in every aspect of Costa Rica's life. Successive

administrations have focused on populist ideology remarkably reminiscent of our own New Deal. Thus, development priorities concentrate on infrastructure, education, health, housing, and numerous other programs which service the man-in-the street. Although successive administrations have differed on technical approaches to public problems and willingness to engage in deficit financing, an ideological commitment to increase the role of the public sector consistently has been followed. More specifically, the differences have boiled down to finances with Liberación being the more expansionary and trend-setting in social programs. The doubling of the central government budget between 1965 and 1972 reflects the popular acceptance of government for responsibility in solving the array of problems created by an urbanizing and modernizing society. As a consequence of this special concern for social justice through heavy concentration on public works and services, the current GOCR's list of development priorities is extensive and includes projects in the areas of agriculture, education, health, electric power, water supply, improved transportation, etc., with a special emphasis on improving conditions of the poor,

especially in the rural areas. This effort has been characterized by critics as the "shotgun" approach to development but is justified by its proponents as designed to serve the dual purpose of lessening the urban-rural gap, thus decreasing rural to urban migration, and alleviating unemployment and underemployment.

The Figueres Administration has clearly indicated that employment considerations are its highest priority. It has acted to increase total demand through rapid credit expansion to enhance income redistribution and increase consumer purchasing power.

This approach has run into a series of problems. First, revenue has not kept pace with government expenditures for a wide range of projects which have been initiated, even though major tax reform has been implemented in each of the first three years of the Figueres Administration. Second, the impatient and often anarchic nature of GOCR planning has not adequately considered the consequences of expensive, short-term, commercial borrowing which has increasingly been used to finance these projects. Third, although its priorities are laudable, the GOCR has not demonstrated sufficient

discipline in project selection. Fourth, public sector management has not attracted the necessary human resources to effectively see through such an ambitious developmental undertaking. It remains to be seen whether, with proper planning and management, Costa Rican development priorities can be attained. Offsetting some of the problems are positive factors of a real interest in social and economic progress, the absence of defense expenditures, the current lack of serious pressures from disruptive interest groups outside the democratic system and generally favorable world prices for its major agricultural exports.

The Figueres Administration has given high priority to the reshaping and implementation of agricultural development policy, and is committed on a long-term basis to provide modern agricultural techniques to increase small farmer productivity within the agricultural sector.

The approaching elections and change of government will not diminish Costa Rica's commitment to the poor, to the rural areas, and to financing expensive infrastructure projects. Realization of these objectives, however, will be

heavily dependent on more efficient public sector management and on financial support from external sources.

A. Economic Performance

Costa Rica's development performance over the last decade has been impressive. High GDP growth rates have been maintained, and the income distribution pattern has been basically good. (See IBRD Report R73-133-A, p. 2-2.03). National priorities have emphasized human needs. There is no defense establishment, and over 5% of GNP is devoted to public education, a ratio that compares favorably with developed nations and places Costa Rica well in the forefront in Latin America.

Such good past performance, however, is no assurance that future development will continue to be favorable. The economy appears to have reached a critical point in development and decisions recently made, or that shortly will be made -- or not made -- will crucially affect the future course of development. With the contribution of government to GNP now about 20% to 25%, there are few areas of more importance than government planning, policy coordination and management.

Two factors have strongly influenced Costa Rica's economic performance over the past decade: the country's membership in the CACM and world market conditions for traditional exports.

(1) CACM membership encouraged manufacturing sector.

Since Costa Rica's first full year as a member, 1964, its exports to other CACM countries have increased 247% from \$15 million to \$51 million in 1972. Imports meanwhile, increased 875% from \$8 million to \$78 million. Thus, as Costa Rica's trade with the CACM increased dramatically, small trade surpluses were replaced with rapidly growing deficits which only recently began to level off. The table on the next page illustrates this pattern.

In 1972 the major items exported by Costa Rica to the other CACM countries were mostly manufactured goods -- tires, pharmaceuticals, chemical fertilizers and edible oils. Major imported items consisted largely of various types of textiles and, particularly from Nicaragua and Honduras, foodstuffs.

Because of the type of investment in the mid and late 1960's it is clear that many of Costa Rica's more modern manufacturing concerns owe their existence to the CACM.

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Table 1

Growth of Costa Rica-CACM Trade

1964-1973

(Millions of Dollars)

Year	Imports from CACM	Exports to CACM	Balance
1964	\$ 8.2	\$ 15.4	\$ 7.2
1965	14.7	18.3	3.6
1966	23.2	25.1	1.9
1967	34.2	27.9	- 6.4
1968	48.8	36.2	-12.6
1969	57.2	37.7	-19.5
1970	68.7	46.1	-22.6
1971	67.5	47.1	-29.5
1972	77.8	51.4	-26.4
1973*	19.4	14.1	- 5.3

* Three months.

SOURCE: Comercio Exterior, Dirección General de Estadística y Censos.

Perhaps as many as 6,000 workers directly owe their employment to it as well. The gross value added of manufacturing increased during the 1965-69 period by an annual rate of over 10%, and exceeded 12% in 1970, principally in response to the increase in exports to the CACM area. In more recent years, however, the growth rate of industrial production has slackened as investment in manufacturing leveled off. This trend was exacerbated by Honduras' virtual withdrawal from the CACM, and growing doubts about the market's future as well as from limitations on further import substitution opportunities in the domestic and regional market.

The problem was further complicated in the 1970's by Costa Rica's growing balance of payments problems, which by mid-1972 had prompted another serious CACM crisis, marked by a temporary suspension of free trade. While the Agreement of October 18, 1972, removed the immediate cause, the crisis served to illustrate rigidities which inhibit the adjustment processes within the market. From Costa Rica's standpoint, higher income levels, higher consumption rates, and higher production costs in many areas, when compared with other CACM countries probably mean that the country

must learn to live with chronic CACM deficits. Nevertheless, the crisis did bring home to Costa Ricans the importance of CACM association to the economy and particularly to the manufacturing sector and to urban employment. On balance, while Costa Rica cannot yet be regarded as enthusiastically integrationist, its CACM membership has been reaffirmed. The nation seems to have learned that disengagement is not such a simple matter.

(2) Traditional exports, still motor of growth. As important as Costa Rica's CACM membership has been to it, earnings from coffee, bananas, sugar and meat -- the country's traditional exports to the United States and other countries -- continue to be the principal motor of growth. As illustrated in the table below, a "banana boom" in the late 1960's was a major factor in sustaining export growth. By the same token, a sharp fall off in earnings from coffee and a leveling off in earnings from bananas in 1971 dangerously exacerbated Costa Rica's balance of payments problems (and contributed to the CACM crisis). Excellent earnings in 1972, particularly from coffee and beef, undoubtedly have

contributed at least as much to the success of the October 18 CACM Agreement as the terms of the Agreement itself.

Table 2

Earnings from Selected Exports and
Total Imports 1968-74
(Millions of Dollars)

Item	1968	1969	1970	1971	1972	1973 (Estimated)	1974
Coffee	\$55.3	\$55.8	\$73.1	\$59.3	\$77.8	\$100.0	\$110.0
Bananas	42.8	51.5	66.7	73.6	85.2	92.0	100.0
Beef	12.0	15.2	18.0	20.5	28.3	35.5	40.0
Sugar	8.7	9.1	10.3	9.7	8.3	14.0	16.0
Ind.Goods	40.7	42.2	53.5	58.9	60.0	65.0	70.0
Tot.Goods	170.8	189.7	231.2	225.4	277.6	320.0	350.0
Tourism	15.0	20.0	22.1	24.2	28.0	35.0	40.0
Tot. Imports	213.9	245.1	316.7	349.7	373.4	410.7	443.5

Source: Comercio Exterior and Central Bank

While coffee earnings recovered dramatically in 1972, earnings from meat exports were relatively more spectacular. Since practically all beef exports are marketed in the United States, increases were in response to the removal of the US import quotas.

The linkage of growth and exports is illustrated by a growth model constructed by CIAP. Assuming a moderate rise in imports, this shows GDP growth for the next several years requiring a growth rate in commodity export earnings at least as large in percentage terms.

(3) Rapid growth -- with and without price stability.

For much of the 1960's Costa Rica's growth record was most impressive. At times real GDP growth exceeded 8% annually, while the population growth rate declined from 4% to about 2.7%, thus permitting substantial per capita GDP growth. In the past ten years, the relative importance of agriculture as a percent of GDP has tended to gradually lessen, while manufacturing and the role of the Central Government have gained in importance. But while manufacturing contributed a respectable 19.4% to GDP in 1972, growth data for 1972/71 tend to bear out the assumption that governmental spending has to some extent subsisted for further growth rates in output by the manufacturing sector. The table below indicates value added by the manufacturing and agricultural sectors and the Central Government, as a percent of GDP, as well as the percent growth (current prices) over the

previous year for the years 1962, 1966 and 1972. Note that in 1972, in contrast to earlier years shown, the rate of growth of manufacturing barely equalled GDP growth, while growth of GOCR expenditures exceeded GDP growth substantially.

Value Added and Growth of Selected Sectors
(percentages)

	1962	62/61	1966	66/65	1972	72/71
	%	%	%	%	%	%
	<u>GDP</u>	<u>Change</u>	<u>GDP</u>	<u>Change</u>	<u>GDP</u>	<u>Change</u>
Agriculture, forestry, fishing.	25.4	5.6	23.5	2.8	21.6	9.5
Manufactur- ing and mining	16.8	14.3	18.3	11.2	19.4	12.0
Central Gov't.	9.2	6.6	10.4	16.6	12.1	15.2
Other	<u>48.6</u>	<u>-</u>	<u>47.8</u>	<u>-</u>	<u>46.9</u>	<u>-</u>
TOTAL	100.0	8.7	100.0	7.4	100.0	11.3

Source: Central Bank of Costa Rica

Beginning about 1970, there was a decided slackening in the real rate of growth, with the rate for 1970-72, according to official data, only about 5%. In per capita terms this meant growth of only about 2% for those years.

After a period of relative price stability in most of the preceding years, the 1970-72 period has been marked by substantial increases in price levels. Thus, while GDP growth in current terms has consistently been 10% or better each year since 1968, the aforementioned deterioration in real terms took place.

As measured by the GDP deflator, prices increased from an average of less than 1% annually for the 1965-68 period to about 3% in 1969 and to over 5% for each of the following three years. In fact, revisions of the deflator now being made are expected to show relatively less inflation in 1970 and 71, with an increase in price levels -- perhaps approaching 10% -- for 1972. So, final data could show real growth in 1972 to have been about 3% and per capita growth close to zero. While reliable data are not available, wages do not appear to have caught up; real wages have probably declined slightly.

Table 3

Percent Change in GDP Deflator, 1963-1972

<u>Year</u>	Source: <u>Central Bank</u>	<u>% Change</u> <u>OFIPLAN</u>	<u>Embassy</u> <u>Estimate</u>
1963		2.4%	
1964		4.1%	
1965		0.3%	
1966		0.6%	
1967		0.5%	
1968		0.9%	
1969		2.0%	
1970		5.6%	4.0%
1971			7.0%
1972			10.0%

Sources: As indicated.

Recent increases in price levels may be viewed as a fairly typical example of "deferred inflation" via currency over-valuation. Gross domestic expenditures increased at a more rapid rate in 1970-71 than in earlier years, while output lagged. With the colon over-valued at 6.65 colones to the dollar, the increase in demand was met by a sharp increase in import demand. This in turn relieved pressure on prices, but it put unacceptable pressures on the balance of payments.

By late 1972, however, measures designed to confront the country's deteriorating balance of payments situation

were clearly reflected in rising consumer prices, starting with substantial increases in the colon cost of many imports as a result of a series of defacto devaluations. Such increases soon worked their way throughout the economy.

(4) Balance of Payments -- easing of the crisis. Recent years have been marked by substantial growth in the deficit on current account. This more than doubled in three years, from \$51.6 million in 1969 to almost \$114 million in 1971. The spiraling deficit was a result in part of the expansionary policies adopted by the Figueres Administration. Credit was increased by 17% in 1970, rising to 27% in 1971. Efforts to restrict credit expansion were partially successful in 1972 and for 1973 the Central Bank hopes to keep total expansion -- for both public and private sectors -- to 10 percent.

By mid-1971, an effort was made to stem further balance of payments deterioration, primarily by monetary policy tools. Little progress, however, was achieved until 1972, when a combination of increased taxes, tighter credit, some restraints on government spending, and additional exchange measures (approximately 75% of imports were shifted into the

free market, thereby requiring an $\text{Q}8.60$ import rate) began to slow import growth. Moreover, unexpected price increases in world markets alluded to above increased export earnings. As a result, preliminary data for 1972 show Costa Rica's trade account deficit improving from \$114 million in 1971 to \$97 million in 1972. Exchange preferences for Costa Rica's CACM trading partners for a time during 1972 threatened any chance of improvement. However, the August CACM crisis, followed by the October 18 CACM Agreement, helped Costa Rica avoid an unacceptably large trade deficit with these partners as well.

Costa Rica's current account deficit in 1971 was financed importantly by short-term -- and to some extent forced -- capital inflows. The mechanism for this was the large buildup in applications for foreign exchange at the official rate. Reportedly, this backlog -- or *presa* -- at one time reached \$140 million. In many cases, foreign suppliers have been forced to suffer long delays in payment while importers awaited approval of their applications. This was so even though importers could always purchase exchange at the more expensive free market rate and bear

Table 4

Balance of Payments
(Millions of Dollars)

<u>A. CURRENT ACCOUNT</u>	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971¹</u>	<u>1972²</u>	<u>1973³</u>
1. Goods						
Exports (FOB)	170.1	189.6	231.0	224.6	278	320
Imports (FOB)	-193.7	-221.5	-286.8	-316.3	-344	370
Merchandise Balance	- 23.6	- 31.9	- 55.8	- 91.7	- 66	- 50
2. Services (Net)						
Freight	- 13.1	- 15.9	- 19.3	- 21.5	- 25	- 30
Insurance	- 1.3	- 1.5	- 1.9	- 2.2	- 3	- 5
Travel	3.4	5.5	9.4	7.2	7	10
Investment Income	- 18.6	- 16.4	- 13.6	- 14.5	- 18	- 20
Other	1.7	0.2	1.3	1.3	-	-
Total Services (Net)	- 27.9	- 28.1	- 24.1	- 29.7	- 39	- 45
Balance of Goods and Services (1+2)	- 51.5	- 60.0	- 79.9	-121.4	-105	- 95
3. Transfer Payments (Net)	8.6	8.4	5.9	7.5	8	8
A. BALANCE ON CURRENT ACCOUNT (1+2+3)	- 42.9	- 51.6	- 74.0	-113.9	- 97	- 87
B. CAPITAL ACCOUNT (Net)						
Long-term private capital	10.9	27.7	38.0	35.8	45	50
Short-term private capital	9.8	19.7	22.6	45.6	4	- 10
Long-term official capital	13.7	8.7	6.4	20.5	25	30
Short-term official capital	0.7	0.5	0.5	0.1	-	-
Special Drawing Rights	-	-	4.2	3.4	-	-
Other Capital ^{4/}	17.4	12.6	- 9.6	20.0	29	17
B. BALANCE ON CAPITAL ACCOUNT	52.5	69.2	62.1	125.4	103	87
C. NET CHANGE IN INT'L MONETARY RESERVES (A+B = C)	9.6	17.6	- 11.8	11.5	6	0

^{1/} Revised

^{2/} Preliminary

^{3/} Estimated

^{4/} Includes "errors and omissions"

the burden of waiting for official exchange themselves. Recent efforts by the Central Bank have reduced the presa to about \$60 million, and it is anticipated that it will be completely eliminated by the end of 1973. This is being done both by utilizing export earnings and by transfers from the free market, which seems to have been fortified by recent inflows of speculative funds.

(5) Central Government Budget reflects traditional priorities. GOCR budgets have traditionally reflected this country's sense of values and the 1973 budget is no exception. Nearly half of direct current expenditures are earmarked for education, with allocations for public works and transportation second in importance. Other priorities, when transfers are taken into account, include preeminently, health and social welfare. While priorities within the government's current budget have remained basically unchanged over the years, the philosophy of the role of government has definitely changed under the Figueres Administration. This is reflected in substantial across-the-board increases in Central Government expenditure. For example, between 1971 -- the first full year of the Figueres Administration -- and

1969 total Central Government expenditure (current and public investment) increased by about 40%. Within this, the investment portfolio increased threefold over the same period. This includes funds for sorely needed infrastructure projects, particularly for streets, highways, and airport construction. The chart below illustrate this substantial growth in Central Government expenditure.

There has been increasing concern regarding budget financing as expenditures have grown. For each of the years 1969-1972 Costa Rica had at least a small current account surplus, and in 1970, a substantial one. Early projections for 1973, however, suggested the likelihood of a substantial deficit (Q87 million), with an unfinanced deficit on capital account as well. The prospect for this year, then, has been to resort to inflationary financing at a time when the economy could ill afford it. Nevertheless, while budget deficits are here to stay, early reports for 1973 suggest that revenue performance will be much better than anticipated. Moreover, bond sales to the public so far this year have held up quite well and the Central Bank continues to hope it can keep

Central Government Budget
(Millions Colones)

	Actual 1969	Actual 1970	Actual 1971	Actual 1972	(GOCR Proj.) 1973
(a) Current revenue	719.8	883.2	909.5	1041.3	1083
(b) Current Expenses	<u>716.2</u>	<u>769.1</u>	<u>907.6</u>	<u>1067.5</u>	<u>1170</u>
(c) Current surplus	3.6	114.1	1.9	- 26.2	- 87
(d) Capital expenditures	173.2	205.5	339.7	346.8	420
(e) (Debt amortization)	(75.4)	(87.4)	(93.7)	(105.8)	(135)
(f) Public investment	<u>97.8</u>	<u>118.1</u>	<u>216.0</u>	<u>241.0</u>	<u>285</u>
Total expenditures b+d	889.4	974.6	1249.2	1414.3	1590

Note: Debt service so far has not been particularly burdensome.

Central Government Budget
Expenditures as % of GDP
(Millions of Colones)

Year	1969	1970	1971	1972	Proj- ected 1973
GDP	5545.5	6181.3	6830.3	7602.7	8362.9
Total expenditures	889.4	974.6	1249.2	1414.3	1590
%	16.0%	15.8%	18.3%	18.6%	18.4%
Capital expenditures	173.2	205.5	339.7	346.8	420
%	3.1%	3.3%	5.0%	4.6%	5.0%

Note: Does not include expenditures of the autonomous institutions which actually expend a larger amount of funds for capital investment and which have equal to or greater total budgets than the Central Government.

credit to the public sector within overall credit expansion guidelines. With the approach of elections, however this may prove difficult.

As suggested above, the economic effects of increasing public sector expenditures have been marked, with such expenditures tending to take up the slack from a less vigorous than usual performance by the private sector. In this way, government expenditures have helped to maintain aggregate demand, and urban unemployment has been kept below 8 percent. At the same time, however, the economic cost of big government has been felt via effects on price levels and pressure against the balance of payments. Consequently, government spending has contributed to the reduction in real growth rates. Nevertheless, it must be emphasized that the GOCR, after demonstrating vacillation and weakness in monetary and fiscal policy matters, began to put together the elements of an effective stabilization program in late 1972. Basically, this stabilization effort was composed of more responsible credit expansion policy, the imposition of rigorous and progressive consumer taxes, further de facto devaluation by shifting imports to free market colon rates, and income tax

reform. This concerted program seems to be working and has broad, popular support. For the future, however, the issue is not as simple. Costa Rica has made a courageous effort to development with maintenance of employment and income redistribution criteria as priorities. By its very nature, such an effort is continuously endangered by (a) increases in revenue trailing public expenditure increases, (b) agricultural export commodity price fluctuations, and (c) the Costa Rican propensity to import with historical inelasticities of demand for key products. GOCR commitment to rapid development is to be praised and supported, and budget deficits to be understood as a factor of its commitment. The test of its viability and effectiveness will be in the "how" of financial management rather than the "whether" in dealing with accelerated development expenditures; and this is the key issue which the new GOCR will need to confront.

B. Outlook

The outlook for the Costa Rican economy is for a low rate of real growth this year, but with an upturn quite likely in 1974. Just how strong this resumption of growth will be, depends upon a number of variables, some internal

such as the quality and effectiveness of policies adopted by the new Government which will take office in May 1974, and some exogenous, such as world market conditions and investment decisions made by multinational corporations.

(1) Short-Term -- Stabilization. Costa Rica's current stabilization program (in combination with continued good prospects for traditional exports) should be reasonably successful. There should be no repetition in 1973 of 1972's balance of payments crisis. Inflationary pressures should abate somewhat toward the end of the year. As mentioned above, tax and other revenues will most likely exceed early projections, thereby helping to reduce the budgetary current account deficit below the $\$87$ million projected at the beginning of the year (if unexpected expenditures are not subsequently added on).

Real GDP growth in 1973 will not exceed that of 1972 (i.e., about 3%); although, fueled by good export earnings and the high rate of government expenditure, growth in current terms (maintained more by high consumption than by new investment) will continue at least as high as 1972. Real growth should strengthen in 1974, to about 4-6 percent, as

inflation is brought under check. Still, the rate of inflation probably will not fall below 6 percent; or about four points below Embassy estimates for the present year.

Costa Rica's split exchange rate is expected to be reunified shortly after elections. Economic factors dictate reunification at a rate equal or close to the present free rate. Reunification at any rate substantially below $\text{Q}8.60$ to the dollar would prompt serious speculation against the colon, and probably lead to early re-adoption of the split rate system. Since some speculative funds seem to be held in government sight and short-term bonds there would be an immediate impact on government finances as well as upon the stability of the colon. So, exchange rate policy should provide the first important indicator of the monetary and fiscal outlook for 1974, and whether exchange stability or instability is in store.

Costa Rica has now entered its quadrennial presidential campaign period. This means that there will be political pressures for increased public expenditure and relaxation of credit ceilings. Continuing commercial bank financing for public sector infrastructure projects seems to be in

store, since such money normally can be obtained and disbursed rapidly. To the extent that commercial financing is obtained and spent the impact on growth will be positive; but since normally the cost of such money is high and the term short, servicing could become burdensome in the future. Thus, a second important indicator of the short-term outlook will be the new administration's decision regarding the trade-offs between political expediency and fiscal responsibility.

(2) Longer-Term Prospects -- two models. For the longer run, the possibility of heavy investment in aluminum refining and related infrastructure development (including construction of a hydroelectric facility on the Térraba River) poses a prospect for very substantial stimulus to new growth by the early 1980's. The construction phase of these projects could mean, according to press statements, investment of more than \$500 million over a relatively short time span. (The magnitude of this can be appreciated when it is borne in mind that Costa Rica's present GNP is only about \$1 billion). Obviously, infusion of such a vast amount of investment capital would bring its own set of adjustment problems and would require carefully designed

monetary and fiscal policies to ameliorate new inflationary pressures.

Everything, however, should not be hung on the possibility of the ALCOA project coming to fruition. This simply might not happen. With no ALCOA investment, the outlook is less bullish but still not bad. Coffee, sugar, and meat prospects will probably continue reasonably good for the next few years. Nevertheless, relative to GNP, the importance of earnings from these commodities should decline.

In contrast to the CIAP staff study findings, we do not believe the outlook for substantially increased export earnings from bananas is bright. The banana industry is in serious difficulties with employment of about 10,000 workers at stake. The large companies are in a reasonably strong position, but the independents are largely inefficient, caught in a price/cost squeeze and heavily indebted. The answer does not lie in trying to increase production but in shifting marginal producers out while improving productivity of the remaining independents. By much the same token the GOCR's interest in shifting marginal coffee producers out of coffee is sound. This focuses attention on the need for

other sources of export earnings. Costa Rica has good potential for developing a whole range of non-traditional exports -- cement and other minerals, timber, mushrooms, asparagus, tomato products, seafood, and citrus, among others. Earnings from tourism, estimated at \$28 million in 1972, could easily double over a few years time. Development of Costa Rica's domestic market and more importantly of the CACM (the difference between a market of 2 and 20 million) will become increasingly important to the stable development of the Costa Rican economy. The table below, prepared by CIAP, illustrates their conclusion of the importance of exports to further growth.

(3) Role of government increasingly critical to growth and welfare. In the historical presentation under Section A, the growing influence of government in Costa Rica's economy was noted. In macro-economic terms, government has been an important factor in sustaining aggregate demand. This, of course, does not tell the whole story. The other side of the coin involves public expectations and the quantity and quality of services that government provides. It seems clear that there will be no withdrawal of government from the

Table 5

Costa Rica: Total Supply and Demand, 1971-75, Hypothesis A
(In Millions of CRC at Current Prices and Percentages)

	1971 ^{a/}	1972	1973	1974	1975	Rates of Increase			
						1972/71	1973/72	1974/73	1975/74
TOTAL SUPPLY	9,553	10,415	10,971	11,559	12,105	9.0	5.3	5.4	4.7
GDP	6,930	7,661	8,079	8,534	8,929	10.5	5.5	5.5	4.6
Imports	2,623	2,754	2,892	3,025	3,176	4.9	5.0	4.6	5.0
TOTAL DEMAND	9,553	10,415	10,971	11,559	12,105	9.0	5.3	5.4	4.7
Exports	1,968	2,182	2,313	2,455	2,579	10.9	6.0	6.1	5.1
Internal Demand	7,585	8,233	8,658	9,104	9,526	8.5	5.2	5.2	4.6
Gross Fixed Investment	1,634	1,753	1,866	1,982	2,105	7.3	6.4	6.2	6.2
Private	1,210	1,308	1,400	1,512	1,625	8.1	7.0	8.0	7.5
Public	424	445	466	470	480	5.0	4.7	0.9	2.1
Variations in Stocks	250	-	-	-	-	-	-	-	-
Consumption	5,700	6,480	6,792	7,122	7,421	13.7	4.8	4.9	4.2
Government	1,015	1,200	1,260	1,330	1,429	18.2	5.0	5.6	7.4
Private	4,685	5,280 ^{b/}	5,532	5,792	5,992	7.0 ^{c/}	4.8	4.7	3.5

^{a/} Preliminary investment, rounded.

^{b/} Calculated as residual. Includes variation in stocks.

^{c/} Based on private consumption plus stocks in 1971.

SOURCE: 1971, Central Bank of Costa Rica; 1972-75, OAS Secretariat.

Costa Rican economic scene, regardless of who wins the 1974 elections. Nor is this significant involvement in the economy bad. It is good and has had a healthy effect on the country's development. Although the rate of growth of government expenditure is expected to diminish at least through 1974, there will still be demand for more infrastructure development, in pursuance of the importance assigned to this by the Figueres Administration. Moreover, there will be increasing demands for more government investment in human resource development and in improving the quality of life. There is a danger, however, that government will not play its proper role in the efficient utilization of national resources, and that instead of being in the forefront of further, rational economic and social development, it will become a drag on the economy, seriously inhibiting the functioning of Costa Rica's still essentially free enterprise economy.

In addition to the importance of financial policy, discussed elsewhere, there will be a particular need for a much improved public sector planning effort, for more

administrative efficiency and coordination, and for assurance of a continuing high level of resource transfers from abroad. All three of these elements, of course, are closely interrelated. Planning must involve careful setting of national priorities and the utilization of resources in obtaining goals. A priority of particular importance will be rural development. So far, there has been relatively little rural-urban migration pressure. This, however, could change fairly rapidly.

A second planning objective involving government leadership (but private sector action) concerns export promotion and much more efficient promotion of non-traditional exports than is now apparent.

Concerning administrative efficiency and coordination, the present anarchy between various agencies simply cannot be continued. Generating new domestic financing for government operations makes sense only if resources are utilized effectively. A new tax reform will probably be needed by 1974, but more important is better tax administration, and the will to enforce tax measures already on the books.

Finally, Costa Rica's growth must be fueled by exports, but for some time to come foreign capital transfers will be crucial as well. In this regard the GOCR must look to the international financial institutions for an increasing level of funds. The table below provides the Mission's estimate of external resources likely to be received from IFIs, other than those provided by AID, for the fiscal year '74 through '76 period. It should be borne in mind that this is an estimate only and that considerable changes could occur before the end of the period in question.

External Resources
(\$ million)

<u>Source</u>	<u>Purpose</u>	<u>FY 74-76</u>
CABEI	Roads, tourism, exports, housing, etc.	\$ 30.6
IDB	Roads, vocational education, fish development, urban development, etc.	29.6
IBRD	Roads, power, education, etc.	51.0
Japan	Pacific coast port	15.0
UK	Water system	<u>2.2</u>
	TOTAL	\$128.4*

*These figures are exclusive of less attractive, short-term borrowings for public investments in infrastructure from private banking sources which have increasingly been utilized.

To maintain a viable debt service profile and continue to increase its development project portfolio, Costa Rica will need to receive much larger increments of concessionary IFI capital assistance, perhaps on the order of a \$60-70 million annual level. If this does not occur the speed of implementation of Costa Rica's development aspirations may falter.

C. Institutional Strengths and Weaknesses

Costa Rica has developed a complicated but effective system of checks and balances within government, which includes its autonomous institutions. Thus, in addition to the normal democratic interaction of the legislative, executive and judicial branches of government, there exists one of the greatest structures of autonomous and semi-autonomous institutions in Latin America. These agencies have been established to assume specific developmental or technical tasks. The total institutional picture emerges as one dominated by these autonomous institutions, in large part, due to their solid financing.

The autonomous institutions include state banks, the insurance monopoly, the Social Security Institute, the

Social Assistance Institute, the University of Costa Rica, the Electricity Institute, the National Water and Sewage Service, the Institute for Municipal Development, the National Production Council, the National Housing and Urban Planning Institute, Port Authorities, etc. They are governed by specific legislation and by boards of directors appointed by the government. However, they operate independently of the central government, with the only required supervision being the surveillance of the Controller General's Office. They account for approximately 50% of total government expenditures annually and make up the majority of the change-oriented institutions in Costa Rica. The strength of this system of autonomous institutions lies in their financial and administrative autonomy. Public sector weakness comes from the diffusion of the policy-making process, the difficulty of coordinating the totality of development efforts going on in a sector, and, in most cases, management inefficiency and poor financial administration.

Compared with the autonomous agencies, the Executive Power ministries tend to suffer more from budgetary in-

adequacies and management inefficiency, but less from poor interagency communication and coordination.

Of particular interest to the USAID have been those institutions in the agricultural, municipal, and health sectors. The focus of our development assistance efforts has concentrated on institutional aspects of those public agencies with the above sectors responsible for development and management policy-making. Their institutional weaknesses center on fighting archaic management systems, i.e. red tape, over-centralization of management control, inefficient organizational structures, weak internal planning and budgeting, inefficient follow-up on initiatives, and comparatively low salaries vis-a-vis industry. Their strengths lie in their concern for public services, their flexibility or willingness to experiment, their relative freedom of action based on their consensus for institutional change and the availability of needed human resources which with proper guidance can be counted on to overcome current problems.

2. SECTORAL DISCUSSIONS

A. Agriculture

(1) Historical trends: The agricultural sector has maintained a consistently health rate of growth during the past decade.

Table 6 - Gross Value of Production
(Millions of current colones)

	<u>1963</u>	<u>1971</u>	<u>1972</u>
<u>Agriculture</u>	<u>1,180.3</u>	<u>2,179.1</u>	<u>2,380.7</u>
coffee	285.5	418.7	484.2
bananas	177.5	436.6	511.2
beef cattle	110.8	327.7	357.1
sugar cane	56.4	113.2	115.3
All others	550.1	882.9	912.9
<u>Industry</u>	<u>1,591.2</u>	<u>3,437.9</u>	<u>3,840.1</u>

Source: Adapted from Banco Central de Costa Rica - Weekly Economic Information - March 8, 1973 and April 13, 1973.

Even though there has been substantial growth in the industrial, commercial and service sectors of the economy, agriculture is still the "keystone" which provides jobs for

half the labor force and earns about 75% of the foreign exchange. Much of the activity in other sectors relates to agricultural production or the processing and marketing of agricultural commodities. During the period 1963-71, the average annual increase in the gross value of agricultural production was 7.9% (expressed in millions of current colones -- BCCR Información Económica Semanal -- March 8, 1973).

According to preliminary estimates for 1972, the increase over 1971 was 9.3% as compared to the 1970-71 increase of 7.5%. Even when these figures are examined in terms of constant dollar values, the 1971-1972 growth rate is a respectable 4.6%. However, much of that rapid growth has been derived from the major export commodities: coffee, bananas, beef, and sugar. Coffee was the leading commodity, closely followed by bananas, until 1971 when the banana "boom" pushed that crop into first place. Then, upward movement in world markets for beef and sugar created conditions under which Costa Rica was able to diversify away from its former reliance upon the two traditional export commodities. The value of exports for 1972 was reported by the GOCR to be

\$277.6 million. 72% of the total consisted of four major export crops as follows: coffee \$77.8 million, bananas \$85.2 million, beef \$28.3 million and sugar \$8.3 million.

This concentration of growth in the export sector has been a mixed blessing. Although the production and marketing of export commodities creates many job opportunities, and even though a large proportion of the sugar and coffee are produced by small farmers, it is primarily the larger farmers who are the principal entrepreneurs and the major direct beneficiaries of growth in the sector.

Small farmers producing for domestic consumption mostly use traditional production methods and have limited access to credit, technical assistance and efficient markets. Although small farm operators have traditionally produced basic grains, the production of basic grains, which was virtually sufficient to meet domestic requirements until 1967, has decreased in recent years, caused in part by adverse weather conditions, but also by shifts to other crops which offer better income prospects in view of relatively high Costa Rican labor costs. Deficits in basic grains are made up by imports, principally from CACM neighbors, who

have comparative advantage particularly in the production of corn and beans. The gradual shift of small farm production to diversified crops has been inhibited by marketing problems. Thus, perishable commodities for the domestic market are some times in oversupply and some times scarce indicating the need for market organization to respond effectively to generally increasing domestic demand resulting from population growth and increasing per capita income.

The inefficiencies in production of food for the domestic market results in a continuation of the uneven distribution to the rural areas of the benefits of overall economic growth.

(2) GOCR Policies and Program: The natural trend for the future will be to continue the dichotomy between the export-oriented and the domestic-oriented producers. Nevertheless, GOCR programs and policies are aimed at providing conditions which will induce private enterprise to further diversify the production and sale of export commodities, at the same time that more favorable conditions are created for small farm operators who produce mainly for the domestic market.

The need to maintain foreign exchange earnings which are so heavily dependent on the export of traditional commodities to world markets will cause the GOCR to continue to give major attention to this agricultural sub-sector. The next most serious problem facing the GOCR is the need to increase the efficiency of production and distribution of food for the domestic market. Supplies of fruits, vegetables, and staple foods are frequently not in consonance with demand. In contrast, the competition of international markets for beef has created shortages of beef and milk in the domestic market which the government has not yet been able to resolve. The effects of this problem have caused public institutions increasingly to be called upon to mediate between producers and consumers, to walk that "tightrope" of action and policy in the marketing system which tries to establish equitable prices for essential commodities.

In addition, GOCR policies and programs will have to be designed to solve the problems posed by the challenges of exotic diseases and parasites. Private enterprise must depend upon the public agencies to detect, contain and eliminate these treats to production and commerce. The

Government must also have a response capability to alleviate problems caused by natural disasters: flood, drought, earthquake, etc.

(3) Economic Factors: Traditional production of commodities for the domestic market by small farm operators means low productivity, low income and low standards of living in rural areas. The capacity of this group of farmers to contribute to agricultural production and share in the growth of the economy is highly dependent upon the public institutional capacity to encourage and support them, and to provide them with conditions comparable to those available to the larger farmers who produce and market coffee, bananas, sugar, beef, and rice. Principal among these conditions are: access to credit, to technical assistance, to production inputs and to efficient competitive markets.

a) Credit

Approximately 50% of credit outstanding is related to agriculture. On December 31, 1970, agricultural credit outstanding totalled 954.1 million colones, an increase of 17.5% over the previous year. This expansion

continued during 1971 to reach a total of 1,159 million colones, a 21.5% increase. This high rate of expansion of credit occurred in other sectors of the economy as well which forced the GOCR to control the expansion of agricultural credit in 1972 to an increase of 9.1%. A total of 1,265.6 million colones of agricultural credit was outstanding on December 31, 1972.

Table 7 illustrates the rapid overall growth of agricultural credit and highlights the increasing proportion of total credit being devoted to livestock. While total crop credit has grown slightly over 31% in the last three years, livestock credit has increased by nearly 90%.

Of new lending for crop production in 1971, four crops, i.e. coffee, bananas, sugar and rice account for about 96% of all crop credit. Coffee alone absorbed about 83%. Similarly, credit for beef cattle accounted for 88% of all new lending for livestock.

b) Technical Assistance

The provision of technical assistance to small farm operators requires: (1) the existence of a "package" of technology suitable for use by small farmers

Table 7

Costa Rica - National Banking System

(Loans outstanding on Dec. 31, in millions of current colones)

	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Total Credit	<u>1,430.1</u>	<u>1,670.8</u>	<u>2,146.3</u>	<u>2,429.8</u>
Agricultural Credit	<u>811.6</u>	<u>954.1</u>	<u>1,159.0</u>	<u>1,265.1</u>
Crops	479.4	566.2	629.1	623.1
Livestock	332.2	387.9	529.9	633.5

Source: Banco Central de Costa Rica -- Información Económica Semanal -- May 3 and March 15, 1973.

Costa Rica - National Banking System

(New Loans -- by crop categories --
in millions of current colones)

Total New Loans Granted	<u>723.3</u>	<u>965.6</u>	<u>691.5*</u>
Coffee	470.5	461.5	341.5
Banana	14.8	26.1	4.3
Sugar Cane	27.8	28.0	20.4
Rice	23.9	39.0	37.8
Corn	2.4	6.3	7.1
Beans	1.8	1.8	.9
Vegetables including Potato	4.4	5.9	4.2
Beef cattle	163.4	267.9	176.8
Dairy Cattle	11.7	36.6	26.3
All other	11.6	91.6	72.2

Sources: Ministry of Agriculture, Annual and Quarterly Statistical Bulletins.

*Data for the first nine months of 1972.

which will result in a high return to capital investment. The package should take into account the amount and type of power available to the farmer in relation to the amount and characteristics of his land resources, the most probable market conditions at the time the crop is ready for harvest, the effects on soil conservation, and the degree of risk involved in production, harvesting and marketing, and (2) an efficient delivery system.

The Ministry of Agriculture Research Division has to provide and maintain a relevant package of production technology for a wide range of crop and livestock enterprises to provide a reliable flow of information to extension agents, banks and other sector agencies. Market specialists must attain the capability of accurate prediction of market conditions and keep sector agencies informed. Extensionists have to organize farmers into groups so they can be effective producers.

The larger, export-oriented, commercial farmers seek out and develop this information on their own initiative. The public sector has to take the initiative to provide these advantages to the small farmers because they are not "self-starters".

c) Production Inputs

Small farmers, organized into cooperative groups, can better assure themselves of an adequate supply of the proper production inputs at appropriate times by combining their individual purchasing power. Although there are some areas which are not adequately supplied, in general essential production inputs are available in Costa Rica, with the exception of improved seeds and animal feed concentrates. Effective extension work plus credit availability could increase the effective demand for modern production inputs to the point where temporary shortages of agricultural chemicals would exist until agro-industry could respond by increasing production, by imports, or by re-direction of existing supplies.

d) Markets

The primary characteristic of the Costa Rican domestic market for agricultural products is its small size complicated by its regional focus. The government is beginning to overcome these problems in basic grains through the stabilization program. However, bank and Ministry of Agriculture personnel need to have reliable estimates of market

demand and production intentions, so small farmer groups can be motivated to produce the commodities which have the least market risk. Development of a national wholesale marketing system for fruits and vegetables should stabilize domestic market conditions and permit expansion of production of relatively perishable commodities for export diversification. The recent PIMA (Integrated Agricultural Marketing Project) study of agricultural marketing elaborates on the significance of these factors in the sector, and is the basis for future development of Costa Rican marketing policy.

e) Effects on Employment

Small farmers who use traditional methods are underemployed in many cases because climate, soils and rainfall limit them to one crop per year in a cycle which takes six months or less to complete. This is particularly true of basic grains and coffee farmers. More intensive traditional crops such as bananas and sugar, however, are full-time employers. In any event, seasonal variations and the significant underutilization of many farms represent an underemployment pattern which can largely be alleviated by the introduction of animal production or the addition of

more intensive crops such as fruits and vegetables. The salient characteristic of these alternatives is that they utilize crop residues or peripheral land which otherwise is wasted. These additional investments also are attractive in helping to spread the production and marketing risks entailed by single crop enterprise. In some cases, these alternative investments will replace the traditional crops once farmers have efficiently introduced them. For Costa Rica, this may occur most significantly as alternatives to basic grains and low quality coffee farms.

Employment should be stimulated by multi-purpose farms where planting and harvest seasons do not coincide. At the same time, improved farm technology which provides higher returns to labor already employed should attract additional farm employment.

f) Income Distribution

The hypothesis behind much of the AID-supported GOCR efforts in the small farm sub-sector has been that public institutional assistance, to make small farm operators more productive and to provide them with a fair bargaining position in the market place, should result in a more equitable distribution of income in the rural areas.

The agricultural census, which is scheduled for completion by the end of 1973, is expected to provide the data which will assist the GOCR to evaluate this basic tenet of their ongoing program.

(4) Outlook. The potential for Costa Rican agriculture is bright. Livestock and exportable fruits and vegetables hold great promise given their income potential, the education level and receptive-to-change attitude of small farmers, and favorable climatic conditions. Over the long haul Costa Rica will need to stress diversified farm investments since it fits the country's most likely future trading pattern and reflects the high cost of production and consequent high grain prices vis-a-vis its CACM partners. Nevertheless, the transformation of traditional agriculture will require patience and perseverance and will necessitate continued production of basic grains until the viability of more intensive crops and animal operations is demonstrated. To support this strategy, the GOCR will need to concentrate its energy on improving marketing channels, on farm technical services, farm organization, and credit availability.

(5) GOCR Institutional strengths and programs. The Agricultural Development Program, which started in 1971, has taken the initial steps required to modify traditional structures so that public services can be provided more effectively and equitably in rural communities. Progress has included: the establishment of the National Agricultural Council (CAN) and six cooperating regional councils where sector agencies can identify agricultural investments and coordinate agricultural and rural development programs; the regionalization of Ministry of Agriculture extension and research services; the expansion of credit to small farm operators and cooperatives to include many new borrowers; greater use of crop insurance and commodity price stabilization programs to reduce production risks; land titling to enhance the security of land tenure for small farm operators; the enactment of a series of laws related to land tenure and titling, grain and seed quality and cooperative organization; and the expansion of training of middle management agricultural technicians.

The Agricultural Development Program has created a national concensus on rural needs, and the sector's importance

to national development which includes incentives and resources which are required to mobilize effort. The GOCR, however, recognizes the deep-seated problems in carrying out rural modernization; that what has occurred so far is only a beginning. There are nagging coordination problems within and between sectoral institutions, and efficient programs -- from applied research to production and farm income increases -- are not yet functioning properly. The regional orientation to agricultural investment decision-making also is in its formative stage with major implementational changes still to come.

The most difficult task which faces agricultural sector agencies is to learn how to work together towards establishing and achieving common goals. Human and financial resources are increasingly available to this end, although much more will need to be done to mobilize sufficient efforts. The CAN, its Secretariat and regional councils have been operational for about two years. Through its influence on the planning and evaluation process in the implementation of the Agricultural Development Program, financed by the AID loan, it has been able to achieve a degree of success. It does not

yet have all the legal basis, technical skill, nor influence to achieve its full purpose; but it is gaining prestige and managerial ability.

Institutions within the sector run the gamut from efficient and well-financed to poorly organized and archaic structures in urgent need of overhaul or elimination. Most appear to be conscientious and willing to modernize operations; at the same time, many lack managerial talent and are unable to respond to simple requests for cooperation. The overhaul and modern methodology process, nevertheless, has begun.

AID and GOGR objectives and priorities have coincided at the point where public institutions need to provide encouragement and support to small farm operators to increase their productivity and their relative share in social and economic progress; and to accomplish the efficient production and distribution of food for the domestic market. Larger commercial enterprises and private sector agro-industrial initiative have been vigorous contributors to the sector's health and are largely assisted by the IFI's.

The AID program seeks institutional reform and re-organization combined with improved management of resources. The reasoning is that better managed and coordinated institutions will be capable of sector analysis, establishing production goals, planning production programs and providing essential services. We are concerned with the GOCR ability to adapt to changing conditions as they occur. Therefore, specific commodity production goals are set by the GOCR and have not been expressed as specific AID program objectives.

From a longer-range standpoint, the program recognizes the importance of sustaining rural employment and creating alternatives to migration to metropolitan areas until such time as major cities can handle the inexorable trend toward urban living, which for Costa Rica is, perhaps, 6-8 years off as a significant occurrence. The GOCR capability to provide necessary services and stimulus to farm production and income will largely determine the success of the program. Critical to its chances for success will be the development of alternatives to basic grains production, which, for the most part, is no longer a reasonable focus for most small farmers. Increased livestock utilization and more intensive,

if not exotic, crops appear to have potential.

The Agricultural Development Program contains seven coordinated, complementary and distinct projects: Agricultural Services, Agricultural Education, Credit, Cooperatives, Marketing, Land Tenure and Community Organization/Municipal Development. Although these projects have been designed with the small farmer in mind, and indeed some of them (e.g. Credit, Cooperatives, Marketing, Land Tenure) benefit the target group exclusively, the entire agricultural sector is the beneficiary of the program because the remainder of the projects do not have discriminate effects.

The process of education of and assistance to the small farm operator should lead to: (1) a change from traditional to modern production techniques in the production of basic grain crops to obtain higher yields, and therefore a better return for his labor; (2) appropriate diversification into other crop and livestock enterprises which utilize land and labor more intensively than basic grain crops; (3) a reduction in the risk of production by crop insurance to protect his investment against individually unavoidable hazards, by price stabilization to assure him a minimum price for his

produce, and by water control to reduce weather risks from drought or flooding and to facilitate intensive land utilization; (4) modifications in the marketing system to create a fair bargaining position in the sale of produce; (5) and organization to take part in community political processes to assure participation in the benefits of social and economic progress.

The GOOCR has adopted this small farmer program as its principal effort in the sector, consistent with its populist focus and concern for the "little guy". It is expected that this priority interest will be sustained by the new administration.

(6) Other Donors. Principal contributions from the IFI's for the sector are: (1) Agro-industry credits from LAAD, CABEI and IBRD; (2) Irrigation projects of the River Itiquis and Tempisque River Valley from UN and IDB; (3) Fisheries, IDB; (4) Feeder Roads IDB; (5) Commercial Agriculture and Livestock Credit (IBRD and IDB; (6) Rural Electrification, IBRD.

a. Irrigation projects in the Tempisque Valley (\$8,000,000) and small scale irrigation (\$6,000,000) are

planned with IDB loan assistance.

b. Fisheries - a \$10 million loan from IDB was recently approved for modernization of the fishing industry.

c. Feeder Roads Construction - a \$5,200,000 IDB loan began in 1970 and a follow-on project has been requested. In addition IDB assistance will be proposed for a \$14 million feeder road rehabilitation project.

d. Agriculture credit - In 1972, the IDB approved a \$6.0 million livestock and the IBRD approved a \$9.0 million loan for commercial Agricultural Credit. The IDB also participates directly in the AID ADP through a \$2.5 million loan authorized in 1969 for constructing regional agriculture centers.

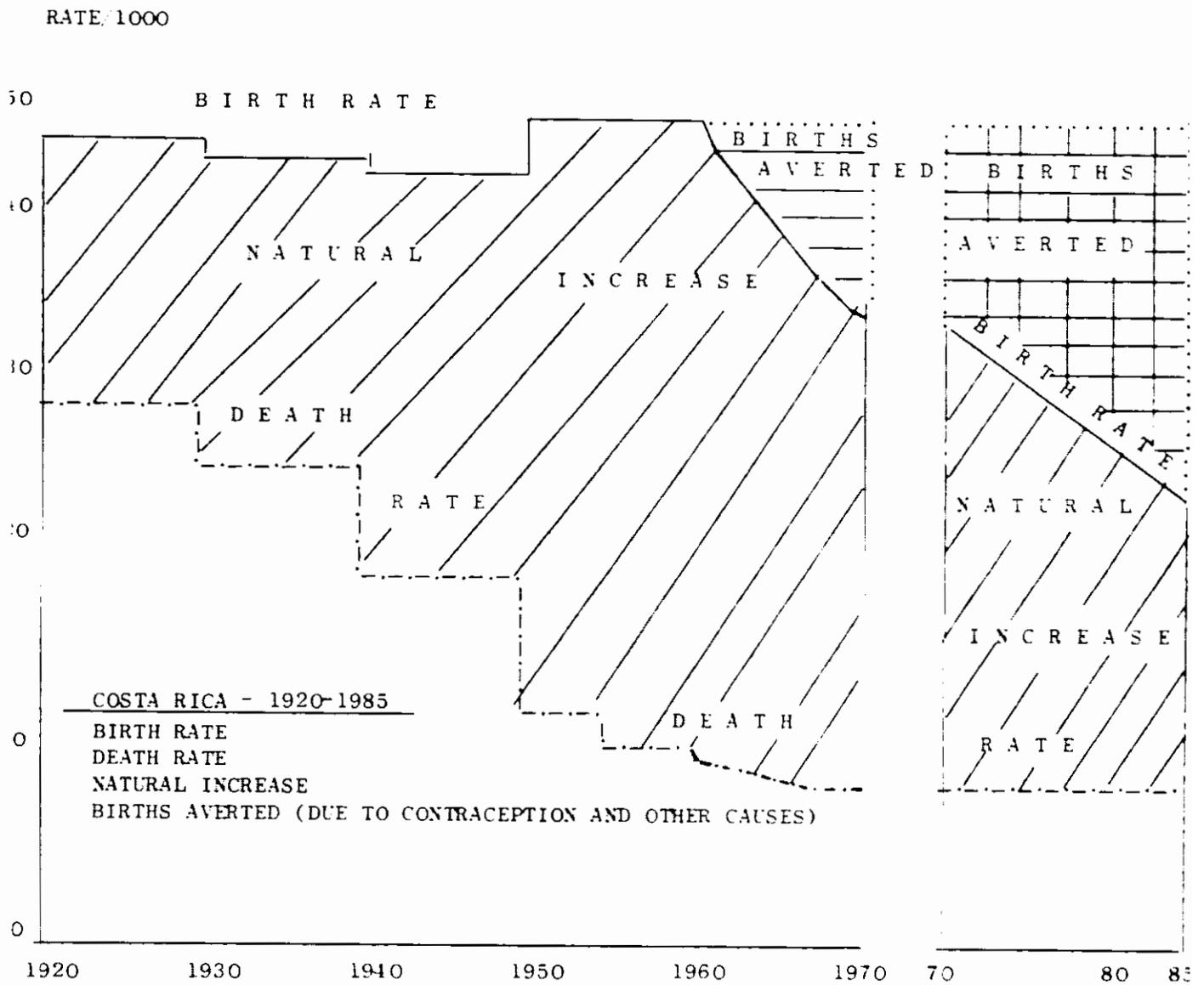
e. Rural Electrification - a \$5.5 million project with IDB assistance was begun in 1970 and is nearly completed.

POPULATION - THE KEY LONG-TERM DEVELOPMENT VARIABLE

No development activity is more central and critical to long-term objectives than a population program which actually reduces excessive growth rates. The Costa Rican POP/FP program has contributed to the decline in birth rate from 46/1000 to 34/1000 in a ten year period and has already

created a situation where more favorable economic dependency ratios exist than would have been the case if the unrestricted high birth rates of the late 50's had continued.

Table 8



The actual population of Costa Rica in 1972 was 143,500 fewer than it would have been if contraception, later marriage and family planning counseling services had not caused a reduction in birth rate during the 1960's. This means that the actual population of Costa Rica at the end of 1973 will be close to 2,000,000 which is 7% lower than it would have been without the use of contraception.

If the historically consistent birth rate of Costa Rica of more than 4.5% had continued (see Table 8) the country would have had 2,604,000 people by 1980. This represents 12% fewer people than would have been the case if the demographic transition had not begun in 1960. In other words, by 1980 approximately 323,000 births will have been averted through the use of contraception and other family planning methods.

Lower birth rates favorably affect the health sector by improving maternal/child health. This is evident in recent health statistics of the Ministry of Health (MOH) and Social Security Institute (CCSS). Infant mortality in 1950 was 89.3, in 1963 it was 69.8 and in 1972 it was 56.5. Part of this decline can be attributed to the reduction in birth rates.

After a delay of five years lower birth rates influence the demand for education because fewer children require schooling. The educational sector in Costa Rica is already experiencing this phenomenon, although it should be understood that this decline is based on the percentage decline of the increased number and not an absolute decline. By 1980 nearly 200,000 more young people would be of school age had not the birth rate declined during the 60's and 70's. This means that the education sector will be spared the financial drain required by nearly a quarter million students who would have required classrooms, teachers, equipment, etc.

Eventually, investment requirements for domestic agricultural consumption, housing and other sectors will be reduced because the demand is less for absolute units per capita. There is no historic evidence, however, that lower birth rates inhibit overall economic development.

It should also be noted that Costa Rica will continue to experience, for the next decade, the phenomenon of "population momentum" caused by the extremely high birth rates of the late 50's and early 60's when it had one of the highest growth rates in the world. This is an even

more compelling reason to reduce birth rates in ideal family size by every possible means so that the declining family size trend offsets the age of maturity by those born during the baby boom of 1955-1965.

The GOOCR is publicly committed to expansion of its FP program so that every citizen will have easy access to FP services. This will enable all citizens to act on their choice to have fewer children.

The GOOCR has not determined what its ideal growth rate should be in the light of its development goals; although most observers are hopeful of a continuing decline to a 2.0% rate by 1980. GOOCR leaders have stated their fear that lower birth rates will create a situation where there will not be enough workers to fill positions in the future. This opinion is not substantiated by any reliable data. In actual fact, there will be an increasing unemployment rate if population growth is not reduced.

The GOOCR continues to support the POP/FP program with funds and personnel. It has also shown new interest in including the demographic variable in its long term planning.

B. Health and Population

The major health problem facing Costa Rica with a rural population of 64.5% is how to provide maternal child health/family planning (MCH/FP) services that are integrated with community health services to the large number of families that live beyond practical access to existing health facilities.

Costa Rica with 15 FP acceptors per 1,000 inhabitants ranks second highest of all Latin American countries behind Trinidad. It also ranks second after Jamaica with one FP clinic for every 20,000 inhabitants. Its well coordinated population/sex education program has been responsible, together with private sector initiatives, in significantly reducing the birth rate from 47.8 in 1960 to 33.3 in 1972. But most of these accomplishments in lowering birth rates and providing much improved health services has come about in the urbanized areas where citizen access to clinics and hospitals is relatively easy.

The success to date may be attributed to a number of key factors:

(1) The GOCR has supported a broad Population/Family Planning (POP/FP) program with substantial funds (more than \$350,000 in FY 72-73) which includes an integrated sex education program in the school system with direction from the Ministry of Education as well as the creation of a Department of Population in the Ministry of Health to manage the FP services in all Ministry hospitals and clinics. Most of these facilities are in urban areas or larger towns.

(2) All seven institutions both public and private -- Costa Rica Demographic Association (CRDA), Center for Family Integration (CIF) of the Catholic Church, Center for Family Orientation (COF) of the Protestant Church, Center for Population and Social Studies (CESPO), Ministry of Education, Ministry of Public Health, Social Security Institute -- are members of the National Coordinating Committee for Population and Sex Education (CONAPO) which meets regularly each week to discuss policy, programs and future plans.

(3) Costa Rica has an operative country FP program and has assigned it to responsible organizations. Information/education is carried out by CRDA, COF, CIF, materials production by MOH and CRDA, FP service by MOH and SSI, research

evaluation and non-medical training by CESPO, planning and fund raising from international, non-governmental organizations by CRDA, medical training by the Medical Faculty of the UCR and SSI.

(4) The relatively high literacy and educational level has contributed to the effectiveness of information/education programs.

(5) The vigorous involvement of the private sector and Churches has strengthened the total program and prevented dysfunctional opposition.

A recent commitment by the Social Security Institute (SSI) to rapidly expand its MCH/FP services to all currently eligible citizens (54% of the total population in 1972) will reduce pressure on the already overburdened Ministry of Health MCH/FP program during the next two years. The challenge of reaching the isolated rural population with the highest birth rates and greatest need for MCH/FP services, however, has only recently been given top priority by the MOH. Some of these communities have birth rates at the upper biological limit.

A rural health pilot project in San Ramón is currently testing the feasibility of using specially trained auxiliary

nurses to visit isolated families in teams to bring them preventive health care and MCH/FP service. These specially trained rural health workers offer many services in the home which were previously restricted to the clinic. Preliminary data after one year indicates that this approach, modeled after similar projects in Cali, Colombia, and Israel, may be sufficiently cost-effective to warrant expansion. A special nine-month course for 20 additional rural health auxiliaries is scheduled to begin in July, 1973. This course is being supported by the USAID.

Health and FP service in Costa Rica should improve in urban areas with the expansion of the SSI; but the willingness of the MOH to provide innovative preventive/community health services to the population which is not covered by Social Security will be the principal determinant for the future in reducing population growth in an increasing urban-rural dichotomy.

A critical problem in the MOH is a weak program/manpower planning function. This is especially true of the MOH Department of Population. Recent expansion of the UCR Medical School and increased nurse training courses, hold

out promise for increasing health care over the long haul. However, significant expansion of FP services in the near future can come in only one of three ways: (1) expansion of service by increased number of clients attended per health team hour; (2) the increase of health personnel in each FP service facility; or (3) the introduction of new technique and/or manpower categories to provide services. The most acceptable solution within the present Costa Rica context is the first alternative. This is difficult in the short run but possible in a longer time-frame. The Medical School increased entering enrollment from 40 in 1970 to 100 in 1973. The nursing schools tripled entering enrollment to 150 in 1971. Nonetheless, the propensity of medical personnel to live in the city will further skew the proportion of such services provided to the urban areas.

Despite rigid job descriptions and service standards within both the MOH and SSI there is willingness to innovate within the MCH/FP programs. This is due in part to the continuous stimulation provided by information from outside the country on new and more effective FP methods. For example, efficient and safe laparoscopic sterilization

techniques have been rapidly introduced into five institutions and, by the end of 1973, this new technique will be available in all major hospitals throughout the country.

Another key factor in the continuous growth of MCH/FP services to more and more families is the stimulation provided by regular weekly sessions of the National Coordinating Committee for Population and Sex Education (CONAPO) which provides a forum for the discussion of program goals, achievements and new directions. There exists a competitive spirit between the SSI and MOH to maintain or capture the lead in various aspects of their respective MCH/FP programs. The most obvious is the number of new FP acceptors enrolled each month.

USAID's flexible bi-lateral assistance has, since 1969, been instrumental in providing needed funds at the right moment when decision-makers have decided to act and needed assistance to expand programs.

The USAID Mission works closely with CONAPO in two ways:

First, it keeps the Secretariat informed about new technical developments in the field and about new programs

funded by AID regionally that may have importance for Costa Rica. Second, the Mission coordinates its funding of assistance projects with CONAPO to assure program optimization. This has often led to rapid funding of innovative programs with strong local support soon after the decision to implement them has been taken by the national institution; i.e. funding of SSI supervisors, laparoscopy programs, new FP client information programs, etc. The ability to achieve a 2.0% population growth rate, to a large extent, will therefore be dependent on the success of this program to serve the isolated rural family.

The Mission's partnership with the Costa Rica Demographic Association in promoting and funding innovations has been particularly instrumental in maintaining momentum that continues to contribute to the transition toward smaller family size.

The last barrier that remains to be surmounted is the introduction of the isolated rural family into the MCH/FP program.

This effort cannot be carried out separately from other rural health activities. Scarce human and budget resources

eliminate the feasibility of developing a separate corps of medical personnel for FP. Moreover, clinical space and mobile units are not sufficiently numerous to consider a duplicate FP system. What is needed is a methodology that can integrate FP with general health services for rural families. The most promising innovation in this regard is the use of auxiliaries and paramedical personnel which is being tested through the San Ramon pilot project mentioned above. This approach has the great advantage of providing a medium of health family planning service in those areas heretofore isolated from professional medical staff by the presence of specially trained personnel who have been identified as leaders of those isolated areas.

There is also the important maintenance task of convincing the more resistant, traditionally-minded, families in urban areas that FP and smaller family size is the more desirable norm. It is a well-documented phenomenon that after the easily persuaded "first acceptors" have enrolled in the FP program, the task of motivating the more resistant women in the fertile age cohorts becomes progressively more difficult and costly.

This task has been assigned in part to the sex education program within the MOE.

The MOE objective is that within three to five years sex education instruction will be introduced into the entire curriculum of the school system, both public and private, from first grade of primary school to the last year of secondary school. Teachers continue to be enthusiastic about the program.

The Catholic Church is intimately connected with the National Population Sex Education Program through the Center for Family Integration (CIF) of the Christian Family Movement. CIF organizes 12-hour, pre-matrimonial courses for Catholic couples who plan to marry. It also has youth groups organized throughout the country. In many parishes, the CIF course is the official pre-matrimonial instruction required by the Catholic Church in preparation for marriage. Both, family planning and responsible parenthood are discussed along with all the available contraceptive methods. While the Church does not officially recognize all types of contraceptives CIF tells the couples that they should follow their personal convictions in this regard. Rapid expansion of

CIF's activities is spreading FP information to more and more families, emphasizing the advantages of smaller size.

Each member organization of CONAPO has its general overall goals and objectives well in hand. Several serious problems exist in two institutions: the MOH and CESPO. The MOH requires technical assistance in health system planning and its Department of Population lacks a program coordinator which has caused inefficient management practices and prevented timely scheduling of important activities. Solutions are being sought jointly with the officials involved.

CESPO continues to have funding problems mainly because it has not generated sufficient managerial expertise to coordinate the activities of its research, evaluation and training divisions and lacks a planning capability.

Important international donors to the program are listed below with their FY-72 inputs:

Inputs in Thousands of Dollars

AID (bilat.)	313
IPPF	233
Ford Foundation	85
PAHO	250
PPFA	56
SIDA	27
UNFPA	9
World Education	<u>8</u>
	981

The Mission will focus its primary attention on assisting the MOH in developing an integrated rural health delivery system with MCH/FP the major focus. It will also continue to support salary supplements for program supervisors to bolster overall supervision which has been inadequate in the past. New agreements with member organizations of CONAPO will also be related to the principal thrust -- bringing FP service to the rural citizens of CR.

C. Sub-Regional Development - Local Government

Strong municipal government in Costa Rica served as an important first step in the original development of Costa Rica's democratic tradition. Because of weak communications and limited central government services, municipalities were obliged to provide almost all government services within the area. However, the center of power was gradually shifted to the central government and municipalities were reduced to simple administrative units of the central government with dire effects on the political, financial and administrative strength of the individual municipalities and resultant poorer services to their citizenry. In 1970 and 1971, as it became increasingly apparent that benefits from economic

and social development were concentrated in the Meseta Central and San José, a long-range program of municipal development and reform was created, accompanied by a strengthening of assistance to community-level organizations. The municipalities' financial status was strengthened by replacing partial participation in five taxes with the full yield of the ad-valorem property tax. A new Municipal Code was passed by the Legislature which established norms of administrative conduct, improved municipal financing procedures, and authorized the creation of an autonomous institute (IFAM--the Institute for Municipal Development) to provide municipalities with long-term financing and technical assistance. The program also called for changing municipal elections to an off-year schedule, thus focusing electoral campaigns on local issues. Simultaneously, at a lower-level of government -- the community level -- the GOCR increased its efforts to promote effective, viable community organizations. The purpose of these community development associations is citizen involvement in community-level projects and better coordination between all development-oriented, public and private entities working at the local level.

These institutional reforms have had a salutary effect on redressing the poor quality of municipal services and potential for income redistribution. Central government contributions to the local governments through the property tax and others have gone up from 25.1 million colones in 1969 to 41.4 million colones in 1971 with an estimated 60.3 million colones in 1973; and approximately half of the municipalities are now trying to solve their most pressing developmental needs through IFAM loans. However, the Costa Rican municipality is far from viable and will require major infusions of assistance in the future. Local leadership is poorly trained and unprepared to deal with major infrastructure and public service planning and investments. Many municipalities provide services such as trash collection, street cleaning or public lighting but very few of them have adequate systems of tax allotment or collection (a problem which has been one of IFAM's major foci). Thus, self-generated municipal revenue is very low and although the situation should improve significantly with IFAM's assistance, the municipalities are for the foreseeable future dependent on the central government for the bulk of their income.

In the short run, it can be anticipated that IFAM will play the principal catalytic role in municipal development.

IFAM was established by law on January 26, 1971, following passage of the revised Municipal Code and numerous tax reform laws. Initial capitalization was \$1.5 million from the GOCR, combined with a \$3.6 million loan by USAID. The basic operating costs of IFAM are covered by a yearly budget of approximately \$730,000. This money comes chiefly from the tax on foreign and national liquors. In the two years of its existence, IFAM has committed the full amount of its capital. Hundreds of municipal employees have been trained; initial efforts in research and regional planning have been carried out; and half the municipalities have received detailed assistance in revising their tax systems on the basis of cadastre studies. IFAM's most successful effort to date has been the strengthening of the financial situation of the municipalities by the cadastre study and training for municipal treasurers and accountants; however, in the coming years equal emphasis will need to be put on municipalities' general administrative policies and on helping them develop their planning capability so they can improve identification

of priorities in handling lending resources. IFAM's operations and technical assistance staffs have, during the first two years, been understaffed and largely uncoordinated; IFAM is moving to remedy this problem by doubling these staffs and assuring that they have permanent directors.

The role assigned to IFAM is a crucial and difficult one. The reputation and position of Costa Rica's municipalities were eroded away over many years. The rural populace had learned to disregard their municipal structure when seeking solutions to their most basic problems. Instead, they relied on porkbarrel legislation and GOCR-directed project activities. Restoring their confidence and voice in local government and at the same time increasing their capacity to handle their own problems is a basic developmental priority of the GOCR which the USAID continues to support. IFAM has been very successful in the short two years of its existence in winning the municipalities' confidence and achieving their acceptance of its role as their full-time advisor. The municipalities are now actively soliciting IFAM's help to a degree that was not foreseen originally. The need for additional capital resources has become crucial

to maintain this hard-won momentum and provide for a minimum number of these municipal needs. Except for municipalities in the immediate vicinity of San José, this capital is generally not available at acceptable interest rates and length of payment terms through Costa Rican banks. IFAM is the only source of long-term low interest funding open to rural municipalities seeking to upgrade the level of services they provide in their area. Development of Costa Rican rural municipalities is an integral part of the GOOCR Agricultural Development Program which assists the small farmer. These municipalities provide essential marketing services for farm produce, the financing of farm-to-market roads, on-farm utility services, off-season employment opportunities, and indispensable social and institutional services.

The GOOCR recognizes the importance of the rural municipality and has included IFAM as a member of the National Agricultural Council and its system of regional councils. This relationship has been positive and has already led to close collaboration in (1) the preparation of the El General Valley Regional plan which focuses on agricultural service

investments needed in San Isidro, and (2) the establishment of PIMA for the preparation of marketing policy and investments.

Prospects for the future are bright. IFAM has before it three major efforts which, if successful, will do much to accelerate municipal development. First, IFAM has begun an ambitious process of regional planning to study investment needs of three key growth poles, i.e. El General Valley, Atlantic Coast, and Nicoya Peninsula. These regions hold great hope to attract new investment and to create viable alternatives to the San José metropolitan area so that migration, employment, and income redistribution can be effectively managed. Moreover, investment with a regional focus has been demonstrated to be a more efficient method for IFAM to make use of its limited capital resources. These regional studies by their nature focus on the population centers within the designated regions.

Second, IFAM is preparing major new legislation to reform land and rural road tax systems with the objective of increasing local government revenues. Analysis is well advanced and will increase local counterpart capacity to

IFAM loans. Already, the Assembly has passed a bill which provides 1.25% of the income tax to local community development associations.

Third, IFAM has taken the lead in creating a government coordinating body to assure consistency of central government investments at the local level and avoid duplicative efforts. If IFAM can successfully see this mechanism institutionalized, it will support adherence to regional and municipal development plans.

The most serious problem facing IFAM and municipalities is lack of capital. IFAM has committed all its funds and will need to obtain new resources within the next 12 months to sustain lending requirements over a 2-3 year period until sufficient roll-over from original loans is available. Needed resources with a counterpart bond issue is estimated at \$5 million.

Other donors have no identifiable plans to support IFAM except as physical infrastructure projects are carried out in a municipal area. IDB, IBRD, and CABEI financing of specific projects, however, is possible for the future.

3. AREAS OF AID EMPHASIS

A. Agriculture

Evaluation of small-farmer programs to date indicates the necessity and desirability to further assist the GOCR in several areas: marketing, credit, primarily for cooperatives or farmer associations, and agricultural services.

(1) Marketing (\$4,000,000). The Agricultural Development Program (ADP) assists the GOCR in providing strategic public institutional support to a large group of small farm operators who produce commodities principally for domestic markets, but also potentially for new export markets. The generation of employment opportunities and increased productivity of this group helps to improve income distribution in the urban areas and provide a steadier supply of food for urban consumers.

When the ADP was designed, the importance of improving conditions in the domestic marketing system was recognized, but not enough was known about the system to propose concrete action. Moreover, the GOCR was not responsive to suggested assistance in this field. The marketing project which was included dealt exclusively with management and administrative

functions of the National Production Council, development of its seed processing plant, and expanded grain storage and handling facilities. The management study has been completed and recommendations have been made, principally concerning policies, actions and facilities required to stabilize markets in basic grains. Funds were provided in the Loan to assist the CNP to carry out some of those recommendations.

Michigan State University marketing experts, working under a Mission contract with the Municipal Development Institute (IFAM) to assist in formulating municipal market strategy and requirements, helped to interest the GOCR in the more extensive need to establish an efficient national wholesale market system primarily for fruits and vegetables, but also for the whole range of commodities commonly traded in domestic markets. They also convinced the CAN of the need to establish an organization of marketing experts who would constantly observe and evaluate domestic market conditions and make policy recommendations. This organization has been established as PIMA and is already counted on for major marketing advisory and technical services.

The hypothesis is that a modern national wholesale market system would be a place to assemble, classify, grade and package commodities to dispatch produce to meet effective demand in domestic and export markets. In effect, it would enable farmers and farm organizations to obtain sufficient marketing information and enhance competitive systems to achieve a fair bargaining position.

In retrospect, it may be that the GOCR was unprepared before for major reform of the marketing system. Now, however, the early success of the sector program has helped identify marketing requirements and the method to carry out needed changes in the system. It is a positive example of the momentum and far-reaching reform stimulated by the 1970 AID Agriculture Sector Loan.

Resources will be needed to do the feasibility studies and engineering design of a national wholesale market as well as its financing. Built upon the unique analytical approach of MSU, the program will require flexible financing techniques available from AID for the purchase of grading, packing, processing and food preservation equipment and materials as well as credit for financing wholesaler inventories to adjust

supplies to demand by warehousing surpluses, thereby maintaining fair prices. Finally, financing of municipal markets will continue to require capital expenditures through attractive, long-term loans.

PIMA has prepared a scope of work and policy orientation document which now forms the basis for future domestic marketing reform and investment. PIMA has received strong support from GOCR agencies and now counts on the technical resources of IICA.

The GOCR has adopted the PIMA plan and has required concrete project design proposals from PIMA by the end of 1973. From the AID standpoint, the results of the PIMA study will form the basis of an FY 75 development loan.

From the standpoint of sectoral development, improved domestic marketing systems and policy seems now to be the crucial functional constraint in the small farm producer sub-sector. Increasing GOCR capability to solve domestic marketing problems is a key issue within its sector program which is now to be confronted.

(2) Small Farmer Credit. All of the funds designated in AID 515-L-022 to augment the capability of the banking

system to lend to small farm operators have been disbursed and absorbed. Even though the initial program reached many small farmers who previously did not have access to production credit, there are still many more who need to be incorporated into the economy. The need to maintain the momentum which has been accomplished and to motivate the banks to continue the programs which brought new small farmers into the system is essential. It is presumed that the IBRD will provide resources to satisfy small farmer credit expansion in the FY 74-75 period. It is important to expand the small farmer credit portion of the banking system portfolio at a rate which will maintain, and preferably improve, the relative access to credit of this group vis-a-vis the larger commercial farmers who produce exportable commodities.

(3) Cooperatives. A special covenant of the Agricultural Development Program committed the GOCR to study the feasibility of creating an autonomous cooperative institute to assist all cooperative organizations as a more viable alternative to the traditional bank-directed system. Recently, the Cooperative Development Institute (INFOCOOP) was legally established, and is in the process of organizing.

It will unify under one body the source of credit, technical assistance, and training for cooperatives. It has received the bank portfolio of cooperative loans to date and will use the remaining AID Sector Loan balances. However, it is clear that the importance of cooperative development for Costa Rica as offering the best method to serve small farm producers will require much larger resources than in the past. Again, as in the case of marketing, the AID Loan was instrumental in the establishment of INFOCOOP, and, it will be important to be responsive to this Costa Rican initiative. CLUSA is already providing loan-financed technical assistance to INFOCOOP and will continue to do so through 1974. What remains is to sufficiently capitalize INFOCOOP to stimulate the expansion of the number and strength of cooperative farm organizations.

Since it is assumed that IBRD will finance small farmer credit through the Central Bank, USAID proposes \$3 million during FY 74 for INFOCOOP credit.

In any event, during the analysis stage for this agricultural credit loan, a principal focus will be to ascertain the feasibility for the Central Bank to make these loan resources available to cooperative organizations or associations of farmers where currently these do not have eligibility. This would be an important step toward banking system recognition of group lending as a priority in the development of the small farmer.

(4) Agricultural Services. The Ministry of Agriculture is being called upon to provide expanding services in response to the reorganization and decentralization of agricultural sector decision-making. Although the process has started, the need to provide the MAG with additional resources to perform its function of coordination and training and to improve its facilities for plant and animal science is acute. Specifically, (a) the Ministry research stations at Taboga and Los Diamantes need expansion to include water-irrigation system projects, as well as a training capability for middle managers based on regional characteristics of production, i.e. plantain and cacao at Los Diamantes; (b) its extension service needs engineering and veterinary competence, and

(c) more sophisticated equipment will be required for the decentralized agricultural center system to fortify services provided by the six regional centers and their satellite cantonal centers.

(5) Intensive Review Request. The Mission will prepare and submit 2 IRRs (\$3 million for cooperative credit and \$5 million for marketing and agricultural services) which will provide more detailed analysis and justification for these sector projects. In principle, the injection of resources to modernize domestic marketing will foster employment opportunities, will improve the bargaining position of farmers, will reduce waste by efficient assembly, processing and packaging in such a way as to provide more and better food at reasonable prices for city dwellers. The exportation of fruits and vegetables to further diversify agricultural production and exports will also be facilitated by the existence of efficient marketing systems. Assistance to INFOCOOP will promote the mobilization of rural credit resources and organize farmers to obtain their fair share of the benefits of economic growth. Further support to the Ministry of Agriculture will help provide for the development of the quality of its services.

The GOCR recognizes that the small farmer sub-sector presents both problems and opportunities. Proper institutional support of this group of farmers can result in much better supplies of food for the domestic market at the same time that it contributes to improvement of the standard of living in rural areas and removes pressure on the cities from maintenance of a low or manageable level of rural/urban migration. On the other hand, increasing popular expectations are such that the GOCR must attempt to rectify inequities in the sharing of economic and social benefits and reduce the wide gap in services which exist between rural and urban areas.

Evidence of the interest of the GOCR to engage in the ADP is to be found not only in the Executive Branch, but also in the Legislative Branch. The Legislative Assembly has taken positive action in providing enabling legislation and has also enacted several important laws in the field of land titling and registry, grain and seed quality control and cooperative development. The Executive Branch has created and made the CAN a reasonably effective agency to coordinate

the policies and activities of the various agricultural sector institutions. Sectoral agencies are actively engaged in carrying out their designated programs to provide encouragement and support to the small farm operators.

At present, the CAN is studying the best way to improve its legal and political base to coordinate agricultural sector development with the national development plan which is being prepared this year.

(6) Summary of Resources. The AID program for FY 1974-76 is designed to finance those activities not previously supported in AID 515-L-022 but which have been identified and stimulated by the Loan, as well as follow-on resources for those activities under Loan 022 for which additional capital is required to take advantage of important institutional progress. The objective will be to take full advantage of the production potential of small farm operators and to increase their share of the benefits of economic growth.

AID inputs will consist of \$8,000,000 in Alliance loans and a supporting grant program to finance two direct-hire

positions to monitor program implementation; technical assistance through AID-financed contractors to provide specialist services in evaluation, management, marketing and production technology; and selected participant training in short courses and seminars to develop specific skills as required by the program. Grant assistance, therefore, has no objective other than management support of the loan program.

B. Population, Health and Nutrition

The Mission plans to support the CR family planning program at the levels indicated in Table II.

Table II

<u>FY 74</u>	<u>Other Costs</u>	<u>Commodities</u>	<u>Contracts</u>	<u>Total</u>
CONAPO			100,000*	100,000*
CRDA	69,000	6,000		75,000
MOH	65,000	35,000		100,000
CIF	35,000	5,000		40,000
CCSS	15,000	10,000		25,000
Training	14,000			14,000
TOTAL	198,000	56,000		354,000

FY 75

CONAPO (para-medics)*	600,000	100,000*		700,000*
CRDA	65,000	5,000		70,000
MOH	90,000	30,000		120,000
CCSS		20,000		20,000
CIF	30,000	5,000		35,000
Training	12,000			12,000
TOTAL	797,000	160,000		957,000*

*This one-time input helps create a rural cadre of paramedical personnel. Initial funding of this effort will begin in FY 74 to assist CONAPO in a study of paramedical requirements and in the design of a program.

Assistance to MOH during the next two fiscal years will be concentrated on introduction of more efficient methods of manpower utilization through use of qualified para-medical personnel and on maintenance of on-going clinical FP services by inputs to critical areas of planning and supervision.

CONAPO working closely with the Ministry of Health plans to develop a paramedical program as follows:

Phase I - Undertake a study of current health services available in rural areas and plot relative needs by areas.

Phase II - Design a rigorous paramedical training course to confront CR rural health problems described in Phase I.

Phase III - Select candidates and begin a pilot one-year course for 20 participants to test the feasibility of training up to 250 paramedics over the next four years who can provide basic health/family planning services and identify individuals requiring higher level care. These paramedics will also be village leaders who can introduce modern attitudes toward health and sanitation standards conducive to much improved overall levels of community health.

Assistance to CRDA will continue to support part of its administration costs which has enabled CRDA to provide the

leadership for CONAPO as well as family planning promotion and support services.

Assistance to CIF will continue with an aim to phase out in FY 76. Assistance to the CCSS will be for costs which CCSS will assume after new program innovations have been operative and can be included in the CCSS long-range budget.

The Mission will continue to offer training for key managers of the program for short study visits to neighboring countries and the U.S. to observe and study techniques and programs that may have applicability in C.R.

The Mission is coordinating its plan to finance a large-scale rural health delivery system using specially trained paramedical personnel with MOH and CONAPO. A pilot program in San Ramón has been operating for twelve months. There is general agreement in the MOH that such a plan should be pushed ahead quickly and that FP would be the key element.

The CR/FP program has had remarkable success. As new activities were reorganized to be essential for the continued expansion and effectiveness of the program these needs were studied, action taken in an experimental way and finally institutionalized. At this stage of development, improved

management and better means to attract new acceptors are critical problems. Evaluation has become essential and is being carried out slowly. Longer term planning must be incorporated into all institutions to achieve continuous guaranteed support and program continuity. The 5-year UNFPA/CONAPO plan is a first step.

Each element in the AID plan for FY's 74-75 is a continuation of support for previous activities with increased concentration on innovative methods of solving health/FP problems.

The USAID believes that continued support of the Costa Rica FP program is crucial. Significant progress has been made to the point where national acceptance of FP has been achieved. This presents a golden opportunity to strengthen the actual provision of services. However, Costa Rica faces a major obstacle in the maintenance of the momentum already achieved in reducing family size, namely, the problem of bringing FP service to the isolated rural family with high fertility. External assistance will be relied on to study and fund innovative health delivery systems using paramedical personnel to perform many of the tasks traditionally assigned

assigned to physicians. Such assistance should pay important dividends that can be applied to other countries facing similar problems of introducing modern health delivery concepts.

Nutrition. The GOOCR has traditionally given a high priority to nutrition programs for pre-school and school age children. Budgetary resources for these programs have risen steadily over the past few years.

The Ministry of Education (MOE) budget for the school lunch program increased from \$596,000 in 1968 to \$1,148,000 in 1973. The Ministry of Health (MOH) budget for the pre-school nutrition program has increased from \$1,226,000 in 1968 to \$2,663,000 in 1973.

Despite these increases in financial resources and manpower on the part of the GOOCR, the demands created by the rapidly growing population of pre-school and school age has made these efforts still insufficient to fully support a nation-wide nutrition program.

This has generated the continued need for outside support to provide protein-rich food commodities to supplement GOOCR provided resources.

CARE is the U.S. Voluntary Agency working in the field of child nutrition in Costa Rica. They have had an excellent operational rapport with both the MOE and MOH.

The GOCR manages all aspects of these programs while CARE acts as the food distributing agency and provides technical guidance on preparation and nutritional content of the commodities.

For FY 1974 the US commodity input in this category will be worth approximately \$500,000 and for FY 1975 it will amount to some \$230,000. The decrease is due to an 85% reduction in the number of recipients of the school lunch program to be provided CARE foods. Remaining schools in the program will be those we consider the most needy from the standpoint of relying on the protein supplements provided as the only assured protein intake. CARE will undertake a detailed study to identify these schools which we estimate to be about 15% of the total. Moreover, this phase down over a year will enable MOH and MOE to budget and plan assumption of responsibility for the other 85%.

This will place a considerable burden on the GOCR, considering that in 1973 the public primary school population

is 390,000 children and increases approximately 10% every year. In addition to the number of recipients receiving nutritional supplements, Costa Rica suffered a severe drought during 1973 which has cut deeply into absolute food production increases. Furthermore, a serious decline in milk and dairy products, fueled by a reluctance by producers to invest due to a price squeeze, limits the ability of the GOOCR to provide protein-rich resources to the nutrition program. For these reasons and acknowledging the efforts to date by the GOOCR, USAID has recommended continued support of the CARE program.

For the longer term CARE support will concentrate on pre-school (maternal and child health) programs. These are conducted in the MOH nutrition centers of which there are presently 200 in operation. The centers also provide family planning advice to the mothers participating in MCH programs.

Food for Work. Recent changes have been made in CARITAS program operations to bring Food for Work into the mainstream of socio-economic development at the small community level in the rural areas. Food for Work projects will concentrate on a variety of agricultural or agriculture-related projects;

for example: small irrigation projects; construction of storage facilities for agricultural produce; repair work or construction of feeder roads, water systems, and small bridges. One of the most important aspects of this will be the participation of agricultural extension agents, sanitary instructors, community development leaders and promoters as advisors to the various CARITAS project committees in the rural areas. The local CRS office has now hired a nutritionist and has the help of a Peace Corps Volunteer who will be instrumental in assisting the Program Director to adequately supervise this rural based program.

It is, therefore, the USAID's and CRS/CR's intent to operate these programs for two more years at the level of 15,000 recipients in FY 74 and 10,000 in FY 75.

The Central Government will increase its annual support to CARITAS from \$35,000 to \$40,600 to cover cost of warehousing and transportation of food commodities from the warehouse to the centers. The Pacific Railway will continue to provide its concessional low rates for transportation of PL-480 commodities from the Pacific port to the warehouses.

C. Sub-Regional Development - Local Government

IFAM has made an impressive start at tackling the serious financial and managerial problems facing Costa Rican municipalities. Nevertheless, it is clear that IFAM is under-financed and lacks sufficient management acumen to sustain this record unless steps are taken to channel more resources into it. Rollover from initial loans will be minimal until 1977 due to the medium term nature of its loan portfolio. A second AID loan to IFAM to cover this capital resource gap, i.e., 1974-1976, is contemplated at approximately \$3.2 million. Of this amount, \$3 million would cover capital requirements while \$200,000 would finance technical services and a special work-study program to train a corps of urban and regional planners.

With the addition of GOCCR counterpart contributions, it is estimated that there will be sufficient mobilization of capital to finance municipal requests for public service investments.

The projects to be financed by IFAM should stimulate rapid improvement in the ability of rural cities to service their agricultural-oriented populations and to foster private

sector investment and employment opportunities. By so doing, IFAM will be playing a key role in diminishing the rural/urban development dichotomy.

Continued support for IFAM and Costa Rican rural municipalities is in keeping with AID's rural strategy focus for Costa Rica and consistent with its long-range objective of assistance in support of improved public sector institutions which serve the rural population by providing farm to market roads, marketing facilities, access to social services, etc. The GOCR is firmly committed to municipal reform and the creation of national agencies such as IFAM to extend the benefits of economic and social progress.

IFAM operating costs are financed chiefly from the national liquor tax and annually amount to around \$730,000. In addition, IFAM has been authorized as a principal user of a recent IDB preinvestment feasibility loan which will finance a series of engineering studies for municipal water and sewer investment projects.

To date, IFAM has used its capital resources to achieve impact and to alert municipalities to its existence and responsiveness to municipal needs. Now, it is essential

that IFAM demonstrate its capability to lend on the basis of priorities identified by well-conceived development plans carried out by municipalities with IFAM technical assistance. IFAM has moved gingerly in this area, concentrating on functional studies in the fields of garbage collection, land tax analysis, local revenue generation and municipal markets. What will be needed is for IFAM to turn to more thorough analysis of regional and urban needs by area with greater attention to municipal capability to formulate policy and to execute concrete investment plans. To accelerate its ability to significantly improve the prospects of these rural municipalities, IFAM has given priority to the preparation of regional development action plans with local municipal participation, believing that the interplay of relationships within sub-regions and the similarity of needs of municipalities within these regions can best be handled by investing in capital projects which attend to regional needs. This spatial strategy, recognizing the interdependency of urban centers and surrounding areas, has been adopted from the U.S. multi-county planning region model and is aimed at creating attractive and alternate development centers.

A second AID loan to IFAM will be primarily addressed to this end.

4. Summary Tables

The following tables summarize our estimates of resources required to carry out the strategy described in Part 2 and the specific programs proposed in Part 3. In each case, these proposals complement continuing programs of AID development assistance to Costa Rica. We believe the costs to be minimal, in the light of existing AID and GOCR investment in these programs and the significant payoff we project from the total package in speeding the process of rural development.

The style of assistance implied by these financial and manpower estimates follows the guidelines of the Central American reorganization Task Force report. A minimum direct hire staff will direct the efforts of contractors who will provide the technical assistance needed by the GOCR.

COSTA RICA

TABLE I

Summary of Commitments by Appropriation Category
(\$ Thousands)

	<u>FY 1973</u> <u>Actual</u>	<u>FY 1974</u> <u>Estimate</u>	<u>FY 75</u> <u>Request</u>
1. Development Loans			
- Project Loans	-	6,200	5,000
- Sector Loans	-	-	-
- Program Loans	-	-	-
2. Technical Assistance	913	983	818
3. Population	379	395	998
4. International Narcotics Control	<u>-</u>	<u>-</u>	<u>-</u>
Sub-Total	1,292	7,578	6,816
5. PL-480 Title I Shipments	-	-	-
6. PL-480 Title II Shipments	937	611	303
7. Housing Investment Guaranties	<u>-</u>	<u>-</u>	<u>-</u>
<u>TOTAL COMMITMENTS</u>	<u>2,229</u>	<u>8,189</u>	<u>7,119</u>

COSTA RICA

TABLE II

Summary of Commitments by Worldwide Areas of Emphasis
and Other Activities

	<u>FY 1973</u> <u>Actual</u>	<u>FY 1974</u> <u>Estimate</u>	<u>FY 1975</u> <u>Request</u>
A. Food Production and Nutrition	<u>379</u>	<u>3,426</u>	<u>5,311</u>
<u>Grants - Sub-Total</u>	<u>379</u>	<u>426</u>	<u>311</u>
Agricultural Development	379	426	311
<u>Loans - Sub-Total</u>	<u>-</u>	<u>3,000</u>	<u>5,000</u>
Agric. Credit/Cooperatives	-	3,000	-
Agric. Marketing & Services	-	-	5,000
B. Population and Health	<u>1,316</u>	<u>1,006</u>	<u>1,301</u>
<u>Grants - Sub-Total</u>	<u>379</u>	<u>395</u>	<u>998</u>
Demographic Education	379	395	998
<u>PL-480 Title II Shipments</u>	<u>937</u>	<u>611</u>	<u>303</u>
C. Sub-Regional Dev.-Local Govt.	<u>171</u>	<u>3,321</u>	<u>121</u>
<u>Grants - Sub-Total</u>	<u>171</u>	<u>121</u>	<u>121</u>
Civic & Social Research & Dev.	171	121	121
<u>Loans - Sub-Total</u>	<u>-</u>	<u>3,200</u>	<u>-</u>
Sub-regional development	-	3,200	-
D. Activities Outside Above Areas			
<u>Grants - Sub-Total</u>	<u>127</u>	<u>165</u>	<u>156</u>
Public Safety	127	165	156
E. Technical Support (Grants)	236	271	230
<u>TOTAL COMMITMENTS</u>	<u>2,229</u>	<u>8,189</u>	<u>7,119</u>
Grants	1,292	1,378	1,816
Loans	-	6,200	5,000
PL-480 Title I Shipments	-	-	-
PL-480 Title II Shipments	937	611	303
HIG's	-	-	-