UNCLASSIFIED

PD-ACC-035

AGENCY FOR INTERNATIONAL DEVELOPMENT

DEVELOPMENT ASSISTANCE PROGRAM

FY 1977

COSTA RICA

DEPARTMENT OF STATE

OCTOBER 1976

UNCLASSIFIED

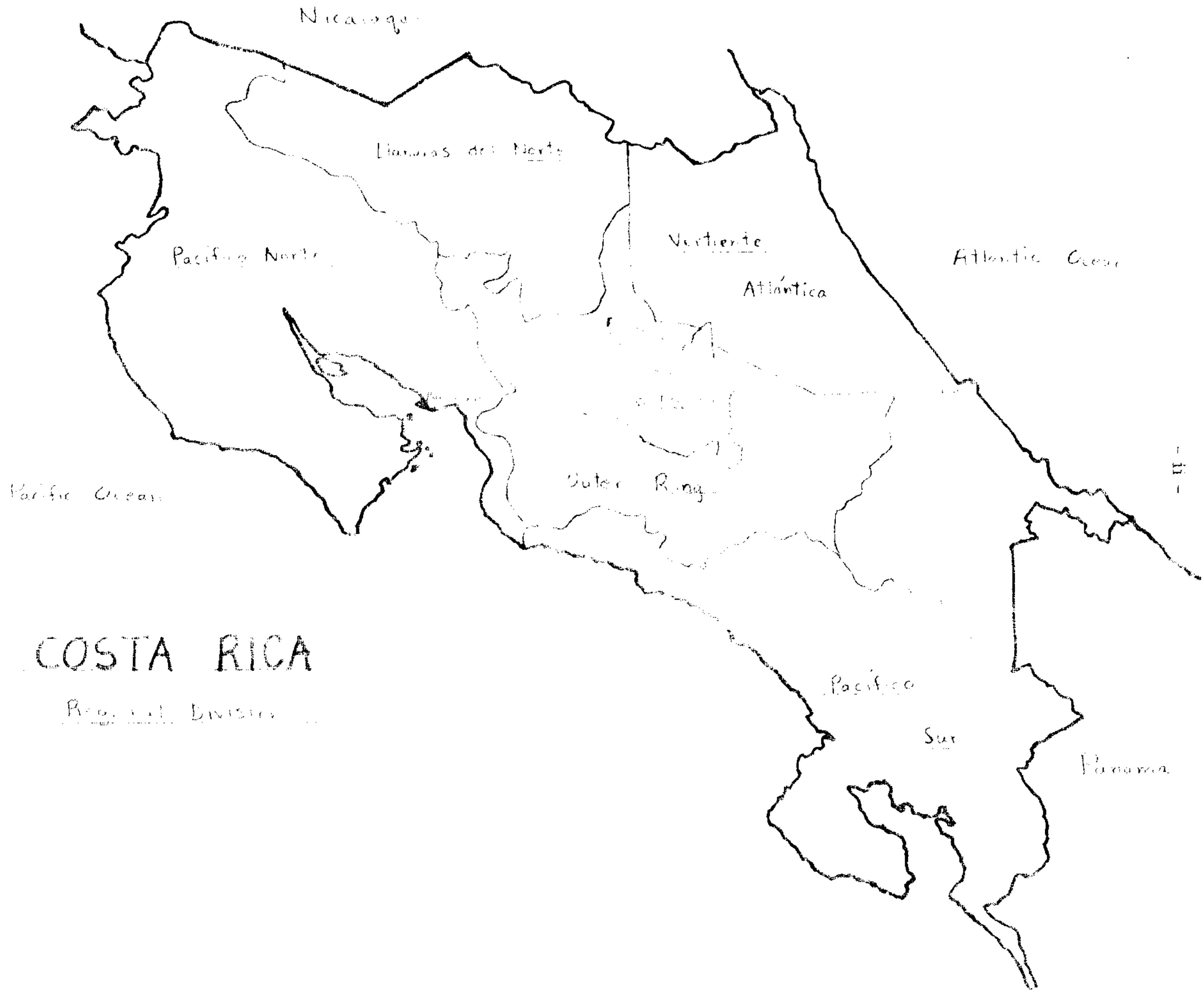
DEVELOPMENT ASSISTANCE PROGRAM

USAID/COSTA RICA

October 1976

LIST OF ACRONYMS

AITEC	Acción Internatinal Técnica (consulting firm)
CACM	Central American Common Market
CAN	National Agricultural Counsel
CCSS	Social Security Institute
CIF	Center for Family Integration
CNP	National Production Council
COF	Center for Family Orientation
CONAPO	National Coordinating Committee for Population and Sex Education
CRDA	Costa Rican Demographic Association
DINADECO	National Community Development Organization
GOCR	Government of Costa Rica
IFAM	Municipal Development Institute
IMAS	Social Assistance Institute
INA	National Vocational Training Institute
INFOCOOP	Cooperative Development Institute
INVU	National Housing and Urbanization Institute
ITCO	National Land and Colonization Institute
MAG	Ministry of Agriculture
OFIPLAN	National Planning Office
OPAM	Planning Office for Metropolitan Area, Part of INVU


Nicaragua
Llanuras del Norte
Pacifico Norte
Vertiente
Atlántica
Atlantic Ocean
Outer Ring
Pacific Ocean
Pacifico
Sur
Panama
COSTA RICA

SUMMARY

This USAID/Costa Rica Development Assistance Program (DAP) covers the following major topics: (1) identification of poverty groups; (2) description of Costa Rica's present status and remaining development problems; and (3) role of AID and future strategy.

Despite respectable levels of economic growth during the past twenty years, despite a liberal progressive government which has concentrated its efforts on social justice and the reduction of poverty, and despite relatively high average per capita GNP, preliminary analysis shows that nearly 42 percent of Costa Rica's population or approximately 800,000 persons fall below AID/W's benchmark of $150 per capita income in 1969 prices. This poverty is most heavily concentrated in the rural non-farming sector and in particular in the country's Central Region: i.e., the San José Urban Agglomeration and near-by rural environs.

This poverty is caused by a number of factors, but is basically related to the development problems discussed in this DAP: socio-economic disparities, economic dependence, rising unemployment, institutional weaknesses, poor land utilization, and financial constraints.

These development problems, the existence of a poverty group which corresponds to AID criteria, and the presence of a democratic Government whose policies, programs, and aspirations are highly consonant with the criteria of our Congressional Mandate form the basic rationale for USAID/Costa Rica's current and short-term development assistance program. This program will assist the GOCR in its efforts to increase real incomes of the poor and to narrow socio-economic disparities within the country. It will more specifically concentrate on (1) the creation of increased rural and urban employment opportunities, through promotion of small labor-intensive industries and through more intensive land utilization and crop diversification; (2) closer linkage of small farmers to commercial markets and agricultural research so they can increase production and reduce the costs of production; (3) improved low cost shelter, neighborhood infrastructure and services for the poorest strata of the urban population; and (4) the development of institutional capabilities so the GOCR will be able to plan and implement policies and programs to reduce poverty on a permanent basis. In working toward these objectives, USAID and the GOCR will concentrate on both rural and urban poverty and on the inter-relationships

between the two, especially the causes of excessive rural-to-urban migration.

Beyond this relatively short-term development-based program, the Mission and GOCR are looking towards Costa Rica's achievement of "graduate status" -- i.e., the point at which Costa Rica is able to systematically reduce poverty without concessional assistance from the U.S. Government. As an "intermediate AID country", Costa Rica has the potential to attain this status in the medium term, although specific "graduate criteria" still need to be defined. The Mission currently envisages that a concerted and jointly conceived effort by the GOCR and USAID can lead to a purposeful culmination of the conventional AID program by the end of FY 1986, after which financial, scientific, and technological linkages between the USG and Costa Rica would continue through other channels.

PART I

PRELIMINARY POVERTY PROFILE 1/

Costa Rica's relatively high national averages for economic growth, per capita GDP, and consumption are established facts. These averages, however, mask considerable poverty which is due in part to the process of structural transformation but also to the failure of GOCR policies to keep pace with a changing environment. This part of the DAP will show that substantial pockets of poverty exist within Costa Rica; these are the target groups for future AID programs. We begin with the quantification and identification of poverty groups within Costa Rica. This is followed by a short discussion of the major characteristics and causes of poverty and the GOCR's attempt to deal with the situation. The last two sections look in more detail at poverty in the rural periphery and the more densely populated San José Metropolitan and surrounding areas. These descriptions of life at a more micro level will enable us to evaluate Costa Rica's present economic status, its needs for additional development assistance, and the type of assistance which might be most usefully offered by AID.

A. Poverty Quantification 2/

AID's Congressional Mandate (per AIDTO Circular A-263 dated 4/30/75) suggests that a uniform poverty standard should be used to identify a target beneficiary group for AID activities. Three poverty benchmarks are recommended: income, nutrition, and health. We are unable to use the nutri-

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1/ USAID anticipates completion of three major studies -- Rural Profile Indicators and Agriculture/Rural Development Sector Assessment by the end of December 1976 and Urban Environment Sector Assessment by June 1977. Until results from these studies are available, our descriptions of poverty in Costa Rica and of specific target groups can be only preliminary. A more complete analysis will be forwarded as a DAP amendment in Summer 1977.

2/ Poverty quantification relies primarily on preliminary results of the AID-financed Rural Profile Indicators study. The study, which has been contracted to a local consultant firm, uses data from the 1973 Population Census and the 1973 Agricultural Census. The data were collected in May 1973.

tion (caloric) benchmark as there has been no country-wide household consumption survey. We do know, however, from a 1975 survey of forty communities that 52 per cent of children under five years of age suffer some degree of malnutrition. For health, evidence is conflicting with regard to the four indicators recommended. Estimated average national life expectancy is 68 years, and the Rural Health Program was greatly expanded in 1973-74 to reach the population in rural areas inhabiting towns of less than [illegible] persons. Thus the estimated coverage of the program is somewhat more than 60 percent, although a recent survey shows that use is substantially less. While these indicators are favorable, estimates of crude birth rates (CBR) and infant mortality rates show that a sizeable portion of the population, especially those living in the rural areas, would fall into the target group according to the AID benchmarks of 25 and 33 per thousand respectively. 1/

Given these circumstances, we have decided to use the annual income benchmark, namely $150 per capita in 1969 prices, to define the AID target group. 2/ It is, in fact, the single most comprehensive benchmark available and, we think, an appropriate one for Costa Rica. Three definitions of the benchmark in terms of colones are used, thus giving a range for the identification of the target group rather than a point estimate. These definitions are termed "conservative", "moderate", and "liberal" to reflect alternative assumptions made about the exchange rate and the price deflator in converting from 1969 dollars to 1973 colones. The Rural Profile Indicators study uses the conservative definition. We favor the moderate definition as the most reasonable interpretation of the benchmark. By these definitions, the aggregate target group in Costa Rica is a "poor minority", not a "poor majority", but one which nevertheless represents a substantial proportion of the population.

1/ 1973 statistics show the national average CBR as 29.4 per thousand and the infant mortality rate as 43.4 per thousand. In 3 out of 5 regions, the average CBR was over 30 and infant mortality over 50.

2/ It should, however, be noted that prices in Costa Rica are higher than in many neighboring countries and that Costa Rica's purchasing power parity is therefore lower. As an example, the cost of basic foods -- with the exception of rice -- is more than 50 per cent higher in Costa Rica than in other Central American countries. Thus, the income benchmark may somewhat understate poverty in Costa Rica relative to other countries.

Table 1 shows the location of poverty by sector using the three definitions.

The range of poverty nationwide is shown as from 28 to 50 percent of the total population, with the range in urban areas from 16 to 29 percent and in rural areas from 36 to 54 percent. The heaviest concentration of poverty is among the non-farming rural sector and ranges from 40 to 63 percent of the total population in this sector.

The classification in Table 1 of rural and urban zones is that used by the Census. Within the poverty group, 78 percent are classified as living within the rural zone and 22 percent within the urban zone. In terms of understanding the dynamics of poverty and its relation to structural transformation within Costa Rica, however, it is perhaps more useful to look at the San José "urban agglomeration" and the "rural periphery." The distribution of poverty by this classification, based on the conservative definition (for which our statistics are best), is shown in Table 2. The distinction between the urban agglomeration and the rural periphery is being made by the Planning Office and is used below, following a brief discussion of the recent events and current trends affecting the size and composition of the poverty group.

B. Characteristics and Causes of Poverty

Poverty can be discussed in terms of its concentration within a population group, its geographic distribution and concentration, and its severity. By referring to Table 1, one can note that poverty is much more highly concentrated in the rural population than in the urban population. This table also shows, however, that 76 percent of the poor belong to non-farming families versus 24 percent belonging to farming families. Table 2 shows that there is a large concentration (30%) of the poverty group in the San José urban agglomeration area, despite the fact that the proportion of the population living in poverty is lower than in the Rural Periphery. Ninety percent of this group is non-farming. A majority (55%) of the poverty group is located in the Central Region alone, which comprises the Urban Agglomeration and the Outer Ring (see map) and constitutes less than 20 percent of the total land area. The heaviest concentration of poverty, with respect to a population group, is in fact in this Outer Ring. Pockets of poverty exist in all the outer regions, although there are distinct concentrations within regions. The absolute poverty (i.e., low income, poor health standards, and poor housing) is often worse and the proportion of the population higher in the outer regions -- the Vertiente

TABLE 1: Poverty Profile (1973) Using AID Income Benchmark of $150 per Capita in 1969 Prices ✱

Sector	Conservative Definition of Poverty Group + (No. of Persons)	Conservative Definition of Poverty Group + (% of Total)	Moderate Definition of Poverty Group ++	Liberal Definition of Poverty Group +++
Urban	121,136	15.9	23.3	29.4
-Non-Farming Urban	117,598	15.8	23.2	29.3
-Farming Urban	3,538	16.1	23.7	29.9
Rural	428,020	35.9	46.9	54.4
-Non-Farming Rural	298,600	40.2	53.2	62.7
-Farming Rural	129,420	28.8	34.3	37.9
Country-Wide	549,156	28.1	41.7	48.9

\+ Using the oficial but overvalued exchange rate of 6.75 colones per U.S. $1 and deflating by the 1972 consumer price index: 1,100 colones per capita.

++ Using the mixed exchange rate of 7.59 colones per U.S. $1 and deflating by the mid 1973 consumer price index: 1,422 colones per capita

+++ Using the free market exchange [illegible] colones per U.S. $1 and deflating by the end 1973 GDP deflator: 1,[illegible] colones per capita.

✱ Data in this Table are based on the preliminary Rural Profile Indicators study [illegible]. The following errors are known to exist. (1) an over-estimation of the population by 84,000 people compared to the 1973 Population Census; (2) programming errors in the imputation of returns from family labor, housing and firewood for farm families; and (3) exclusion of wage payments to coffee harvestors, a substantial sum. The net effect of correcting these errors may be to reduce the size of the target group somewhat. The preliminary Rural Profile Indicators study includes an additional 5,500 persons in the conservative definition of the poverty group, for reasons other than income, namely (a) more than 8 people per bedroom, (b) extremely poor housing conditions, and (c) an illiterate head of family. The incomes of these families are, however, considerably higher than our poverty benchmark, so they have been excluded pending further clarification of the reasons for these adverse conditions.

TABLE 2: Geographic Distribution of Poverty Using Conservative Definitions 1/

Area	No. persons with less than $150 p.c. in 1969 prices (1)	Percent of Total poverty group (2)	Poverty group as % of total population in area 2/ (3)
San José Urban Agglomeration	165,196	30.1	19.7 (27)
Rural Periphery	383,960	69.9	34.5 (48)
Central Region Outer Ring	136,310	24.8	37.8 (52)
Outer Regions (Pacífico Norte, Llanuras del Norte, Vertiente Atlántica, Pacífico Sur)	247,650	45.1	32.9 (46)
Total	549,156	100	28.1 (41.7)

1/ This Table is based on data from the Rural Profile Indicators study disaggregated to the district level.

2/ Figures in parenthesis show poverty group as percent of total population in area using the moderate definition. These are obtained by increasing the conservative figures proportionately. Thus, percentages in column 2 would remain the same.

Atlántica, Pacífico Norte, Llanuras del Norte and Pacífico Sur. The Vertiente Atlántica has the highest infant mortality rate and the highest proportion of people living in districts with infant mortality rates greater than 50, the Pacífico Norte has the highest proportion of its labor force under-employed and the highest proportion of malnourished children; the Llanuras del Norte has the highest crude birth rate, the lowest per capita income and the largest proportion of people over six years of age who have had no formal education; and the Pacífico Sur has the largest proportion of houses without piped water, electricity, or sanitation facilities.

The basic cause of poverty in Costa Rica is, of course, the level of development. The phenomena of poverty is also [illegible]ated by the very process of development. Costa Rica is now experiencing a [illegible]graphic transition, from very high natural rates of increase to much [illegible] ones; however, high rates of increase in the labor force will continue for [illegible]teen years or more until the lower birth rates are reflected in the gro[illegible] the working age population. These high rates of growth in the labor force [illegible] coming at a time when the natural process of structural transformation [illegible] agricultural to an industrial society is already [illegible], labor migra[illegible] from rural to urban areas. In Costa Rica, the migration phenomenon [illegible]eing aggravated by increasing erosion and decreasing soil fertility on small farms, particularly in the Central Region Outer Ring which surrounds the San José Urban Agglomeration. Thus, the demand for new jobs, though not [illegible]ing now, is expected to increase rapidly over the next 10 to 15 years. I[illegible]teresting to note, for example, that 70 percent [illegible] the target rural pover[illegible] group are non-farming poor. Another 12 per[illegible] farming poor with [illegible] than one hectare. Studies show that many famil[illegible] with less than one hectare [illegible] on off-farm employment for substantial portions of their income, thus bri[illegible] the proportion of the rural poverty group dependent on wage employment [illegible]82 percent. The importance of employment policies should be obvious.

The GOCR has a tradition of liberal [illegible] and has frequently taken important steps to address the problems and con[illegible] of the lower income groups. Because it is also a democratic government, however, -- for all its positive features -- it [illegible] unable to move as quickly [illegible] some reforms as would more authoritarian regimes. The GOCR has tr[illegible] address poverty through increased programs rather than making some of [illegible]hard policy and reform decisions that seem warranted. The nature of the[illegible] decisions will be discussed further under Employment and Institutional Strengths and Weaknesses in

Section II of the Summary Strategy Statement. 1/

C. San José Urban Agglomeration

Costa Rica's population is spread along a rural/urban continuum which basically follows a concentric circle pattern. Outer regions of the rural periphery are basically rural -- with relatively isolated and small urban areas of Limón, Puntarenas, and Liberia. The Outer Ring of the Central Region is more densely populated, although still largely rural, and the San José Urban Agglomeration (837,744 persons) has a high concentration of population -- some of which is truly rural, most of which is urban. In discussing the regional composition of poverty, an OFIPLAN study shows that 65 percent of the country's 90,200 families below the "misery" level are within the densely populated Central Region comprising the Urban Agglomeration and the Outer Ring. Similarly, an OFIPLAN housing study shows that more than half of the country's poorest housing is within this Central Region.

In a recent survey of the Metropolitan Area, IMAS identified the marginal barrios of San José -- most of which have been identified as the Barrios del Sur. In general terms, these barrios were found to have acute housing problems, 2/ high degrees of crowding, low levels of per capita income, low levels of education and training, unhealthy living conditions, deficient health standards, high child malnutrition, high number of un- and under-employed, and high levels of delinquency, drug use, and prostitution. Looking at income data from the Rural Profile Study for four of the poorer urban districts covering 32 barrios, one sees that, using the moderate definition of the family income benchmark (i.e. 7,409 colones), the poverty group accounts for 27 to 35 percent of

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1/ Additional information concerning the characteristics of the poor -- e.g. educational levels, fertility, and tenancy conditions and land use of poor farmers -- will be available in the completed Rural Profile Indicators study. Given the errors which exist, additional analysis is unwarranted at this time.

2/ NOTE: An OPAM study shows that from 71,000 to 132,000 persons live in housing below the misery level -- with the 71,000 representing the households surveyed and the 132,000 representing the Census population of the relevant barrios.

Distribution of Income in Four Districts of San José

	Hospital	San Sebastián	Catedral	Alajuelita
Avg. Annual Family Income	₡17,129	₡17,613	₡23,100	₡14,310
No. of Families	7,101	5,956	6,578	1,209
1st Decile	₡ 448	₡ 1,991	₡ 545	₡ 1,697
2nd Decile	4,470	6,157	5,243	5,321
3rd Decile	6,570	8,135	7,701	7,451
4th Decile	8,506	10,577	10,747	9,242
5th Decile	11,020	12,941	14,266	10,998
6th Decile	13,596	15,705	18,614	12,847
7th Decile	17,328	18,795	24,086	15,499
8th Decile	22,284	23,128	31,879	19,310
9th Decile	30,342	29,853	43,445	24,224
10th Decile	56,746	48,828	74,579	86,698

the total district population. While this is higher than the average, it is not dramatically so and points out the interesting phenomenon that urban poverty is relatively evenly distributed among the districts in small pockets and clusters rather than being concentrated in a "poverty ghetto." The presence of middle and even upper income families in most barrios would appear to be a desirable phenomenon but tends to mask the existence of sizeable poverty groups.

D. Rural Periphery Regions

Costa Rica's rural periphery is those regions beyond the Meseta Central. They are made up of the Pacífico Norte, Pacífico Sur, Vertiente Atlántica, Llanuras del Norte, and Valle Intermontano Periférico (Outer Ring) regions -- or 56 of the country's 80 cantons. Each of these regions is distinct. In summary, the Pacífico Norte is dependent upon the cattle industry, although it also produces significant amounts of the nation's foodgrains. Some 60 percent of the area's labor force works in the agricultural sector, with the majority being salaried workers. The region has the largest proportion of land in large fincas (500 hectares or more), the bulk of which is in pasture. The unemployment rate for the region is relatively high (8.1%) and in some districts reaches as high as 15 percent. The wages are also low -- and this accompanied by high unemployment has led to heavy permanent and seasonal migration. The Pacífico Sur has banana and cattle industries, but it also has the largest proportion of farm land planted in annual and permanent crops. Approximately 70 percent of the labor force works in the agricultural sector, with about half being salaried workers and 27 percent self-employed. This region has the largest proportion of fincas in the 5-50 hectare category, thereby indicating a basic population of small farmers growing basic grains for home consumption and sale. The unemployment rate is low (6%) and the wage situation is better than that in the Pacífico Norte, although not as good as in the Vertiente Atlántica. This has meant a relatively low out-migration. The Vertiente Atlántica is primarily devoted to banana and cacao production with a high proportion of land in large plantations. Some 58 percent of the labor force works in the agricultural sector, with the bulk being relatively high wage salaried workers. Incomes are higher in this region and workers are attracted from other areas. Because of heavy in-migration and selected districts of very high unemployment (e.g., Colorado, 17%, and Cahuita, 13%), the region's unemployment rate is relatively high (7.6%) -- but the general employment and income situations are good. The Llanuras del Norte region is the last frontier of Costa Rica and the least densely populated area. Some 70 percent of the labor force is working in agriculture, of which about half are salaried workers and 27 percent are self-employed. The largest proportion of farms are in the 100-500 hectares category, producing bananas, beans, pineapple, oranges, sugar cane, and cattle. The employment situation is the best in the rural periphery, although a large proportion of the salaried workers earn less than ₡400 or $47 per month (61%) 1/. As a frontier area, it has attracted new migrants, but the out-migration due to low wages has balanced the in-migration. The Valle Intermontano Periférico (the Outer Ring) is the most densely populated region in the rural periphery, but it is still basically an agricultural area with 58 percent of the labor force in this

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1/ Assuming a dependency ratio of 1.5, this salary provides an income level of slightly more than the liberal definition of the AID income benchmark for a fully employed worker.

sector. The bulk of the labor force (67%) are wage earners -- primarily as agricultural laborers on coffee, sugar cane, pineapple, and foodgrain fincas. There are also a large number of small farmers with 30 percent of the farmland in fincas less than 50 hectares. The unemployment rate is fairly high (7.3%) and combined with the high proportion of low wage earners (63% less than ₡400 per month) has led to a high rate of out-migration -- 10 percent between 1968 and 1973. Because of the proximity of this area to the San José Urban Agglomeration, the majority of the migrants have gone to the city or to the near-by rural areas which already have unemployment rates near 9 percent.

Looking at employment, income, rate of out-migration, and the presence of infrastructure and services, the IFAM/AITEC studies conclude that the situation in the Pacífico Norte and Valle Intermontano Periférico is the most unfavorable; that in the Pacífico Sur is intermediate, and that in the Llanuras del Norte and Vertiente Atlántica is most favorable.

Migration is one of the key variables in any analysis of the rural periphery -- both as an indicator of living conditions in the regions of greatest out-migration and as a forewarner of future problems in the regions of greatest in-migration. Between 1968 and 1973, the three regions of out-migration were the Valle Intermontano Periférico (10%), the Pacífico Norte (10%), and the Pacífico Sur (3%); while the two areas of greatest in-migration were the Vertiente Atlántica (16%) and the San José Urban Agglomeration (9%). The most important factors in determining out-migration are income and employment, both of which are unfavorable in the Valle Intermontano Periférico and Pacífico Norte regions. In 1973, both had a high proportion of salaried workers earning less than ₡400 per month: approximately 60 percent vs a national average of 42 percent and 25 percent in the migrant-attracting Vertiente Atlántica. Similarly, the Valle Intermontano Periférico and Pacífico Norte had high unemployment rates. As a better indicator of employment opportunities, the IFAM/AITEC studies calculated for each region the proportion of the working age population which was working at least 33 hours per week. Again, the Valle Intermontano Periférico and Pacífico Norte have the worst employment situations, closely followed by the Pacífico Sur, the San José Area, Vertiente Atlántica, and Llanuras del Norte.

These differences in income and employment opportunities are also reflected in the country's occupational and land use patterns. The low income/high unemployment regions are characterized by a high proportion of salaried workers and a low proportion of self-employed. In contrast, the low unemployment regions have relatively low proportions of salaried workers and a high proportion of self-employed. The implications of this for land reform are obvious, although there is no indication that the Government is considering major land reform measures. With regard to land use, the unemployment rates are often highest in the areas where annual and permanent crops are least important and where large plots of land are devoted to extensive pasture land.

It is this high proportion of low-wage salaried workers (i.e., agricultural laborers) which is of major importance in the rural periphery. As pointed out in the IFAM/AITEC Final Report, "in no region is the small proprietor who works his own land or has his own business with family workers in the majority" (p. 22). This phenomena is also reflected by the preliminary results of the Rural Profiles Study: i.e., the greatest number of rural poor are not farm-owners, but rural laborers. And, for these rural laborers, the greatest problems are un- or under-employment and low wages -- and as these problems become more serious, the poor migrate to areas of greater perceived opportunities.

The above describes the absolute differences which exist within the rural periphery of Costa Rica. One should, however, also try to look at the question in terms of opportunities -- i.e., it is not enough to know that small farmers and campesinos have low incomes and low standard housing; it is equally important to understand the opportunities which exist for them to increase their incomes and standards of living. To what extent <u>can</u> the small farmer increase his income? What are the factors which lower his opportunity to increase his income?

This question will be answered more thoroughly in the detailed agriculture sector assessment to be completed by the end of 1976. At this point and as illustrations, we will, however, briefly describe three basic problems: (1) access to commercial agricultural markets; (2) access to government services; and (3) access to employment opportunities.

The first of these problems, access to commercial agricultural markets, can be illustrated through two examples: small farmers dependent upon the sale of basic grains (rice, corn, and beans) and small farmers who have diversified into commercial yuca production. The Consejo Nacional de Producción (CNP) is a government agency responsible for price stabilization and marketing of agricultural products. It has therefore set minimum prices for basic grains. However, small scale producers often receive as little as 70 percent of this price. This is a result of the following: (1) the support price is paid at the CNP buying station and small farmers due to poor storage and lack of transportation facilities, often must sell to intermediaries who then sell to the buying stations; (2) their product is heavily discounted for poor quality, i.e., moisture and debris; and (3) because the grain is wet, they must sell soon after harvest or risk spoilage -- because of this time constraint, they are at a greater disadvantage when dealing with prospective buyers. With regard to the small-scale yuca producers, a DINADECO-AITEC study shows a tremendous difference between prices paid to producers and prices paid by consumers, with the difference accruing to middle-men -- i.e., the farmer is paid ₡20 per sack while the consumer pays ₡96. Looking at these two examples, we can see that the small farmer is not fully benefitting from his labors. The solution must lie in up-grading the quality of his product and in creating mechanisms to give him more direct access to the consumer and to the profits now earned by middlemen.

Related to this is the more general problem of inadequate access to government services. Key services, such as applied agricultural research and extension promoting cost-reducing technologies appropriate for the small farmer, are not available. Other services, such as credit are being developed under the AID agricultural sector loan. Employment opportunities have been discussed to some extent above but are basically limited by the existing patterns of land utilization (see Part II, Section II, E below).

E. Summary

The above quantification of poverty and profiles of poverty groups are merely a preliminary attempt to point out that substantial poverty does exist in Costa Rica in terms of the AID income benchmark. This poverty is most heavily concentrated in the rural non-farming sector and in particular in the area containing the San José Urban Agglomeration and the Outer Ring of the Central Region. As the Mission's sector assessments are completed, we will attempt to analyze in more detail the constraints facing these poor people as they try to narrow the existing socio-economic gap -- as well as the constraints facing the GOCR as it tries to improve its policies and programs. This analysis and understanding are crucial if one is going to develop programs which will truly narrow the differences: i.e., the solution is not merely a redistribution of income or consumption; rather, efforts must be directed toward the systemic distortions and institutional weaknesses which help to retain the social and economic gap in its present form within Costa Rica.

PART II

SUMMARY STRATEGY STATEMENT
DEVELOPMENT OVERVIEW

I. BACKGROUND

A. Introduction

During the past 25 years, Costa Rica has achieved significant development gains, both in terms of traditional economic measures and in terms of the improved social and economic well-being of its population. Since 1950, real GDP has increased by approximately 6 percent per annum, with even greater growth rates during later years: i.e., nearly 8 percent between 1970 and 1973. Following the international monetary and energy crises of 1973/74, real economic growth slowed significantly, although an upswing seems to be occurring in 1976. These growth rates have resulted in a 1975 GDP of approximately ₡16,500 ($1,930 million equivalent or $975 per capita). However, because of rapid inflation in recent years, this figure is highly inflated -- in terms of 1973 prices, the 1977 GDP was ₡11,075 million ($1,297 million), or approximately $655 per capita. 1/

Perhaps even more impressive than these economic changes have been improvements in Costa Rica's over-all quality of life. These improvements are most easily illustrated by reduced infant and over-all mortality rates; increased number and proportion of houses with basic water, electric, and sanitation facilities; increased proportion of children in school and high literacy rate; increased life expectancy, increased social security coverage, and increased middle class. (See Annex I.) The only important social indicator to have deteriorated is the employment situation, and this only in recent years.

During these years of substantial growth, there have also been significant structural changes in Costa Rica's economy. The most important of these changes have led to increased diversification and a reduced dependence upon the agricultural sector: i.e., a reduction in the agriculture sector's share of GDP from nearly 30 percent in 1957 to less than 20 percent in 1975; an

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1/ GDP is also deflated to 1973 prices because of the AID Policy Directive #66 benchmark of $500 per capita in 1973 prices.

increase in the industrial/manufacturing sector's share from less than 15 percent to 20 percent; and an increase in the central government sector's share from less than 8 percent to 13 percent. 1/ In order to understand these changes and to gain a better understanding of the country's present economic status and the problems it faces, we will begin with a brief historical summary. Besides showing changes, this summary will show that the Costa Rican economy has retained many of its traditional characteristics -- and that the country faces many of the same problems it did during the mid-1950's.

B. Description of Basic Economic Changes Since the 1950's

During the early 1950's, Costa Rica's economic growth was primarily due to an export "boom" in coffee and bananas, with the price of the former being at exceptionally high levels ($1.3[illegible] per kilo), and the value of exports increasing from $17.8 million in 1950 to $4[illegible] million in 1957.

However, in 1958 the price began to drop, reaching a low of $0.83 per kilo in 1963. During this period of reduced prices, efforts were directed to improving cultivation practices, culminating today in Costa Rica having the world's highest productivity per hectare for coffee. Production therefore continued to increase (1[illegible] p.a. between 1958 and 19[illegible]3), although the value of exports increased at less than 4 percent p.a. During this period of reduced coffee exports, the rates of growth of GDP, savings, and imports also declined significantly.

By 1964, Costa Rica's entry into the Central American Common Market (CACM) began to break this dependence on traditional agricultural exports and to diversify theeconomy. The CACM introduced new trade patterns to Costa Rica; i.e., in 1963, only 4 percent of Costa Rica's exports went to Central America countries, while in 1974 this figure had increased to nearly 24 percent. But even more important then introducing new markets, the CACM enabled Costa Rica to broaden its market and enter into modern industrial activities, as reflected by the growth of manufactured goods exports: less than 4 percent of total exports in 1962/63, compared to [illegible] percent in 1968 and 30 percent in 1975.

1/ See Annexes I and II. A for detailed structural changes.

The other major factors contributing to Costa Rica's relatively rapid rate of economic development and to changes in its economic structure have been the expansion of public sector expenditures and foreign capital transfers.

The first of these, expansion of public sector expenditures, has had two major effects: (1) it provided new economic and social infrastructure for the productive sectors and financed essential services which led to expanded private sector activity and to the increased over-all supply of goods and services and (2) it increased internal demand by increasing employment and salaries and by purchasing goods and services. Since public expenditures increased at an even faster rate than GDP 1/ the public sector was able to play an important anti-cyclical role. During years in which exports were low (either before entry into the CACM or when new industrial/manufacturing activity was inadequate to compensate for poor agricultural exports), large increases in public sector expenditures helped the economy maintain a relatively satisfactory growth rate.

The bulk of this public sector investment has been for new physical infrastructure and for improved social programs for the general population. As a consequence, approximately 50-60 percent of total direct public investment has gone into transportation, power, and telecommunications during recent years -- while the social sectors (primarily education and health) have received 25-30 percent. Besides its direct impact on GDP, this infrastructure investment (physical and human) has provided a strong foundation upon which private sector investment can be based.

High investment efforts have been another important factor in promoting recent economic growth (and structural change) in Costa Rica. As a percentage of GDP, gross domestic investment has increased from 19 percent in 1960 to more than 25 percent in recent years. This high investment, however, was possible only because of substantial foreign capital transfers to the public and private sectors. The contribution of external resources in financing both investment and increased imports has increased from less than 30 percent in 1960 to an average of 45 percent during the period 1970-74. (See Annex II. C.)

1/ 9 percent vs 6 percent between 1962 and 1972.

The agricultural sector has received the largest amount of this foreign investment, primarily during the 1964-68 period when heavy investment was made to expand banana production and in more recent years to expand cattle activities. Since creation of the CACM, significant investment has also gone into the manufacturing sector.

Besides allowing for increased investment, foreign capital has played an important role in financing Costa Rica's current account balance of payment deficits and has allowed imports to remain at a high level.

All of the above factors -- entry into the CACM, expansion of the public sector, and substantial foreign capital -- have been major factors in Costa Rica's relatively rapid growth and in changing the basic structure of the economy. However, simultaneously there has been a strong growth factor counter-balancing structural change: i.e., the renewed importance of agricultural exports due to changing world market situations and changing products. The two most important new agricultural exports have been sugar and beef which have increased from 5 percent of total exports in 1962 to 16 percent in 1975. The development of the beef export industry also contributed to a changing pattern of domestic production -- a point to be discussed later in this document. Following relatively bad years, the banana and coffee export businesses also began to boom in the late 1960's. As illustrated in Annex V.B, exports of bananas have increased significantly, especially during the period 1966-1972 and 1974-75. Coffee production also began to increase in 1966, with recent price increases 1/ making coffee exports even more important. These forces within the agricultural sector have ensured the importance of agricultural exports to Costa Rica's development -- and have, in turn, tended to maintain Costa Rica's dependence on international markets and prices, a point which will be discussed later in more detail.

When looking at factors which have led to basic changes in Costa Rica's economy, it is also important to look at the effects of inflation. Until the 1970's, the wholesale price index increased at an average of less than 6 percent p.a. and therefore had little immediate effect on the economy. However, the petroleum and food crises of 1973 and the consequent world-wide inflation rates, plus excessive domestic demand, have led to high inflationary rates in

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1/ In January 1975, the international quotation was $1.21 per kilo; by July 1976, this had increased to $3.30.

recent years: 16 percent in 1973; 39 percent in 1974; and 20 percent in 1975.

These high inflationary rates have cut deeply into Costa Rica's <u>real</u> economic growth. Also, because inflation has caused the Government to change some of its previous expansionary policies which had directly contributed to increased investment and economic growth, its effects are still being felt.

C. Present Economic Status

Due to the increased price of petroleum products, international inflation, and a deterioration in Costa Rica's terms of trade and to decreased agricultural output in 1974, Costa Rica's rate of economic growth slowed considerably during both 1974 and 1975 -- i.e., real GDP increased at 5.4 percent in 1974 and 3.4 percent in 1975. This was accompanied by high rates of domestic inflation and serious balance of trade deficits ($121 million, $271 million, and $212 million, respectively, for 1973, 1974, and 1975).

During 1975, the Government made major efforts to deal with these three problems of sluggish economic growth, inflation/excess domestic demand, and balance of payments deficits. At the same time, the GOCR continued, and to some extent expanded, its social programs directed at narrowing the socio-economic gap. The main policy instruments were consumer credit restraints; 50-100 percent consumption taxes on non-essential imports; broadened use of tax credit certificates (CATs) to promote export industries; wage controls, although with the intent of maintaining the purchasing power of lower income groups; control of over-all credit expansion by the Central Bank and encouragement of savings through interest rate adjustments 1/ and changes in commercial bank portfolio requirements; increased support prices for basic grains; and new taxes 2/ to finance the Asignaciones Familiares Program, an income distribution mechanism designed to increase the real income of the poor in Costa Rica.

The early indicators for 1976 suggest that the reduced inflation and reduced balance of trade deficit in 1975 will continue through 1976. Over the

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1/ The range on time deposits increased from 4% to 7% in December 1972 to 7½% to 12% in March 1975 and to 10% to 15% at present.

2/ New payroll tax and increase in the general sales tax from 5% to 8%.

first six months of the year the consumer price index increased by only 4 percent and the trade deficit ($70 million) was approximately half of what it was during the same period in 1975. This turnabout in trade figures is particularly impressive, as it represents a 21 percent increase in exports over the same period last year and a 4.5 percent decrease in imports. This improvement in trade patterns has also resulted in a dramatic increase in Costa Rica's international reserves; from $48 million in June 1975 to $59 million in December 1975 to $120 million in July 1976 1/. As a result the GOCR has a target growth rate of 6 percent for real GDP in 1976 -- a target which the IMF agrees is reasonable in its latest annual report.

The over-all economic prospects appear favorable in the near-term, although there are pressure points -- balance of trade, financing of government expenditures, debt servicing. Also, there is concern that high inflation rates will return in 1977 as a result of current high coffee prices (and the apparent inability of Government to tax these windfall profits) and probable high budget deficits in an election year. These points will be discussed more thoroughly in a separate section on Financial Constraints.

D. Income Distribution

As another measure of economic change and of the "real" effects of economic growth, one should look at income and land distribution, both between geographic regions and income groups. There is a wide variation in economic status and standards of living between regions which has increased in recent years because of the changing economic structure -- i.e., most of the industrial investment has been in the Meseta Central, primarily in the environs of San José, Heredia, and Alajuela. As a result, much of the periphery has lagged behind in the development process. In Guanacaste, as an example, the trend toward increased cattle production (and the consequent movement toward larger

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1/ It should be noted that this is the highest level of reserves ever recorded by the Central Bank. The previous high was $65 million in October 1973. Nevertheless this level represents only two months of imports, which Central Bank authorities in most countries would consider dangerously low. Costa Ricans, however, tend to see it as a comfortable margin. Costa Rica has traditionally preferred high import volume over large foreign exchange reserves.

farms and more extensive land use) has brought about the displacement of the small farmer, a decline in the importance of foodgrain production, and rural unemployment. This has led in turn to the new Costa Rican problem of increased rural-urban migration with its adverse economic and social implications.

In terms of income distribution, Costa Rica has moderate inequality: e.g., the lowest 40 percent of Costa Rica's population held 14.7 percent of total income in 1971 vs 6.5 percent for the same population group in Honduras, 6.5 percent in Perú, 12.2 percent in the Dominican Republic, 11.6 percent in the Philippines, 17 percent in Thailand, and 18 percent in Korea. 1/ Comparing 1961 and 1971 data, the income share of the middle 60 percent of the population increased from 34 percent to 44 percent, with a concomitant decrease in the share of the top 5 percent. The detailed income distribution profile in Annex III.E however, shows that the degree of equity varies between regions, with the rural sector being most equal and the Metropolitan Area being most unequal. Of perhaps greater importance, Annex III.D shows that the income share of the lowest 20 percent of the population decreased during the 1961-71 period. This is confirmed by comparing the rates of growth of GDP and of the lowest quintile's share of GDP: 5.0 percent vs 4.2 percent between 1961 and 1971.

There are two major reasons for the apparent worsening of the poorest quintile's position: increased unemployment and increased concentration of landholdings. With regard to employment, during the 1960's, Costa Rica enjoyed relatively low unemployment rates near 4-5 percent. However, beginning in the late 1960's, the labor force began to increase more rapidly than employment -- thereby leading to increased unemployment, especially for low-wage laborers, and unemployment rates near 7 percent in the early 1970's.

The increased concentration of landholdings has been an equally important factor. Between 1963 and 1973, the number of farms under one hectare increased from 3,661 to 14,413, resulting in a situation in which 46 percent of the country's farms are less than 5 hectares and comprise only 1.85 percent of the total farm area, while 7 percent of the total number of farms are more than 100 hectares and comprise 67 percent of the total area. This decrease in the proportion of land held by medium and small farmers has been

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1/ Comparing Costa Rica data with data in Redistribution with Growth, pp. 8-9.

primarily due to the displacement of small farmers in Guanacaste, Heredia, and Limón -- often through the sale of their land to large ranch or plantation owners.

The above data on income distribution show that Costa Rica is relatively better off than many developing countries. They also, however, indicate that the poorest 20 percent are becoming poorer relative to the rest of the population. In response, the GOCR has refocused its efforts towards redistribution 1/ -- as will be discussed in Section III of this document. Yet, in spite of these redistribution programs, the Government will need to focus greater attention on policy reforms relating to the costs of labor and capital, the promotion of employment, and the more efficient utilization of land.

1/ Some results from these programs are already being felt: e.g., the University of Costa Rica recently calculated Lorenz curves comparing the distribution of salary incomes in 1963 and 1973 which show that the lowest 20 percent of wage earners increased their share of total salaries by 2 percent during the 10-year period.

II. MAJOR DEVELOPMENT PROBLEMS

A. Socio-Economic Disparity

As discussed in the "Preliminary Poverty Profile", there are substantial pockets of poverty in Costa Rica which, according to our "moderate" definition, comprise approximately 42 percent of the total population -- and more than 50 percent of the population in certain geographic regions. These people are poor in absolute terms: nearly 800,000 people have per capita incomes less than AID's $150 benchmark, some 420,000 people live in houses without basic services (piped water, electricity, and sanitation facilities); and some 800,000 people live in districts with infant mortality rates greater than 50.

This poverty exists in spite of a relatively equitable distribution of income -- i.e., the middle 60 percent of the population holds 44% of total income. In fact, it is probably this large middle income group which makes the socio-economic gap more noticeable. In contrast to this middle 60 percent of the population, the lowest 20 percent holds only 5.4 percent, while the top 20 percent holds 50.6 percent. As an example, of this great difference between income groups, we see the following from preliminary data provided by the Rural Profiles Survey:

AVERAGE ANNUAL FAMILY INCOMES

Income Group	Lowest 20% of Pop.	Middle 60%	Highest 20%
Rural Non-Farm Owners	₡2,170	₡ 8,170	₡ 25,220
Rural Farm Owners	2,147	25,450	117,420
National Urban	3,460	15,300	48,845
Metropolitan Area Urban	4,210	17,415	54,895

The gap itself is discussed in the earlier poverty description. It is enough at this point to say that Costa Rica's socio-economic gap (between the lowest 20 percent and the middle 60 percent as well as between the lowest and highest 20 percent) is a major development problem. The closing of this gap, through the resolution of basic systemic problems and not merely through a redistribution of income and consumption, will form the basis for future GOCR and USAID programs.

When discussing socio-economic disparities, one should also look at the differences in opportunities for men and women in Costa Rica. According to law, both sexes have equal education, employment, property, and electoral rights.

Looking at actual participation, rather than rights, women make up approximately 10 percent of the country's total labor force, with a heavy bias towards urban employment where they comprise 31 percent of the labor force. There are relatively few women working in the agriculture sector or in other rural employment. There are no good data on "equal pay for equal work," but we can say that a large proportion of women are in the lowest paid jobs. 1/ In contrast, there is also a large portion of women in the higher employment brackets -- approximately 50 percent of all professional workers. This is confirmed by educational data which show that 52 percent of all workers with complete university education are women. These numbersindicate a large number of women in both professional and unskilled jobs, with proportionately fewer in semi-skilled jobs.

There do not appear to be serious socio-economic differences between men and women in Costa Rica, although the over-all participation rates of women should increase -- a factor which will contribute to future employment requirements.

B. Economic Dependence

Much of Costa Rica's recent economic growth has been due to the openness of its economy, primarily through the growth of traditional agricultural exports and the growth of its CACM-oriented industrial/manufacturing sector. While promoting growth, these factors also accent Costa Rica's vulnerability to changing international conditions and its dependence on the demand (and prices) for traditional agricultural exports in world markets and on the purchasing power and demand for its non-traditional manufactured exports within the CACM. The high level of dependency in the Costa Rican economy is also reflected by the sig-

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1/ Women comprise 10 percent of the total labor force but 30 percent of all salaried workers earning less than ₡400 ($47) per month.

nificant role foreign capital inflows play in covering balance of trade deficits. The world-wide inflation and recession of 1973/75 and energy crisis also had serious effects on Costa Rica and once again illustrate the economy's vulnerability to external forces.

Since the early 1960's the proportion of exports to GDP has continually increased -- from 19 percent in 1962 to 28 percent in 1974. Although the composition of exports has changed considerably since Costa Rica's entrance into the CACM, the country still remains dependent on a few primary agricultural exports: e.g., in 1974 and 1975 and during the first five months of 1976, coffee, banana, beef, and sugar exports made up 64 percent of total exports. The major difficulty with this high proportion of traditional exports is the vulnerability of the overall economy to violent price fluctuations in the international market. Most agricultural export prices are high at present 1/, but throughout the past decade, the export price index has been below the import price index, with consequent negative terms of trade for Costa Rica. The effects of the negative terms of trade are felt throughout the economy and, as an example, during the late 1950's and early 1960's when coffee prices were low, the economy avoided serious problems only because of the newly created CACM and unexpected increases in non-traditional agricultural exports (e.g., beef). The instability of prices has also meant that the multiplier effects to the economy during periods of high prices are minimal.

Costa Rica's non-agricultural exports are dependent not only on income changes and demand in CACM countries, but also on the Costa Rican capacity to import. For example, imports for the industrial sector have been steadily increasing: i.e., from 2 percent of total imports in 1961 to nearly 50 percent in 1975. The bulk of these imports have been primary materials, although capital goods imports for the first six months of 1976 are almost equal to the twelve month total of 1975. This has been accompanied by a decrease in imports of primary materials -- suggesting the reduced importance of "drawback" industries. Because of the relatively high wage structure in Costa Rica, production is also potentially less competitive, thereby making non-traditional exports extremely vulnerable to international market conditions -- i.e., total

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1/ The New York price was $1.48/lb. in August 1976, compared to $.83/lb. in August 1975. This has meant an increase in the value of coffee exports for the first five months of 1976 to $73 million, more than for the same period in any previous year.

costs are often competitive only because of relatively low capital costs.

While the economy is still dependent upon international market prices for agricultural exports, the GOCR has been successful in diversifying some of its markets: e.g., the percentage of total coffee exports going to West Germany has fallen from 39 percent in 196[illegible] to 28 percent in 1975 and to the United States from 30 percent to 14 percent during the same period. The proportion of total exports going to the U.S. has also fallen, from 42 percent in 1970 to 32 percent in 1974, with commensurate increases to European Common Market countries and the rest of the world.

As stated earlier, Costa Rica's high investment efforts have been possible only because of substantial foreign capital transfers: i.e., the contribution of external resources in financing gross capital formation has increased from less than [illegible]0 percent in 1960 to an average of 46 percent during the period 1970-75. (See Annex II.C) This foreign capital has also been instrumental in financing Costa Rica's balance of payments, as can be seen in the following table:

BALANCE OF PAYMENTS
(In Millions of Dollars)

	1971	1972	1973	1974	1975^P
1. Balance on Current Account	-114.1	-10[illegible]	-111.9	-266.2	-213.1
2. Capital Account					
Net Private Capital	(81.4)	[illegible]	(40.7)	(117.5)	(63.0)
Net Official Capital	(24.1)	[illegible]	(48.2)	(75.1)	(132.9)
Capital Account Balance	105.5	66.[illegible]	88.9	192.6	195.9
3. Miscellaneous Adjustments (and IMF Oil Facility)	20.1	39.5	40.8	50.7	38.1
4. Over-All Balance, Change in Reserves	11.5	[illegible]	17.8	-22.9	20.9

This again shows the dependency of the Costa Rican economy on external resources. Foreign capital has allowed Costa Rica to maintain high levels of imports, especially for its new industrial sector, and has, therefore, played an indispensable role in the high growth rates of the past 15 years.

The issue, however, is not one of the past. It is rather of the future. Can Costa Rica maintain this high level of dependency? When will the repayment of past capital transfers overshadow inflows? It is too soon to draw conclusions but it appears that capital outflow is increasing, partially due to the amortization of private debt. 1/ The relevant question then becomes how long Costa Rican can finance balance of trade deficits with foreign capital. Assuming that there are limitations, Costa Rica must develop new financial mechanisms which can break (or at least diversify) its dependency on foreign capital.

The third important indicator of Costa Rica's highly dependent status has been the impact of the recent energy crisis and world-wide inflation and recession on the domestic economy. The 1973/74 energy crisis led to a four-fold increase in oil prices in Costa Rica and to a significant increase in the country's import bill. The bulk of this increase was due to oil prices: net oil imports increased from $1[illegible] million in 1973 to $4[illegible] million in 1974, despite a slight drop in consumption. Also during 1974, the total import bill increased by 56 percent, although the actual volume of imports increased by only 19 percent -- and even part of this increase in volume was a direct reaction to inflation, as businesses tried to build up their inventories. The result was a record current account deficit in 1974. The effects on the domestic economy were varied: first, there were direct effects such as higher gasoline and electricity prices, and a general inflation rate of nearly 40 percent in 1974. The resulting balance of payments crisis, however, caused the most serious problems -- e.g., credit restrictions and consumption taxes of as much as 50-100 percent were imposed, all of which resulted in lowered economic growth during 1973-75 and a reduced standard of living for the average Costa Rican.

The balance of payments effects have been somewhat reduced by the temporary (1974-75) Venezuelan Oil Fund which lends back to Costa Rica, for development purposes, approximately 40 percent of its crude oil imports from Venezuela. This will allow Costa Rica to defer payment on its oil imports. It will not, however, solve the long-run problem of a significantly higher import bill.

1/ For example, accumulated amortization for private enterprise debt as of May 1976 was $47 million vs $36 million during the same period in 1975.

All of the above factors illustrate the fragile equilibrium which the Costa Rican economy has enjoyed and its great vulnerability to external economic forces -- whether these be a sharp drop in coffee or banana export prices, a reduction in foreign capital inflows, or a sharp increase in the price of essential imports. Costa Rica will, of course, always be dependent upon external markets. Therefore, the objective cannot be to break this dependence -- rather, the objective should be to diversify its dependence in terms of export markets as well as production.

C. Employment

Despite a rapidly growing labor force during the early and mid 1960's, Costa Rica was able to maintain relatively low unemployment rates, approximately 4-5 percent, except during 1963-64 when unemployment increased to 7 percent as a result of reduced economic activity following the eruption of Irazú Volcano. The generally low unemployment rates were primarily due to rapid economic growth, and more specifically to employment expansion in non-agricultural sectors.

In recent years, however, employment has been increasing more slowly than the labor force ([illegible] percent vs [illegible] percent between 1967 and 1973), resulting in higher unemployment rates during the 1970's. At the time of the 1973 Census, the national unemployment rate was estimated at 7.3 percent, with the rates in some communities reaching as high as 15 percent. On a regional basis, unemployment is worst in the Pacífico Norte, the Vertiente Atlántica, and the Urban Agglomeration. 1/ In 1973, the unemployed were also predominantly young, with [illegible] percent of the total being under 24 years of age -- a fact which will influence the nature of GOCR efforts to generate new employment opportunities.

Because of the age structure of Costa Rica's population and the still growing proportion of persons in the 15 to 60 age category 2/ and because of in-

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1/ Note that the rate is high for the Vertiente Atlántica even though the region attracts laborers for the banana plantations. This is due to high temporary or seasonal unemployment and to isolated communities where there are no banana and cacao plantations.

2/ 46.7 percent in 1963; 50.4 percent in 1973, and projected 54.5 percent in 1978.

creased female participation rates, the labor force will continue to grow rapidly in the near future. At the same time, output is likely to increase less rapidly than in the late 1960's. Adjusting recent IBRD projections according to 197[illegible] actuals and assuming that real GDP increases at 5.4 percent p.a. and that real output/man increases at 2.7 percent p.a. (compared to 2.6 percent between 1963 and 1973), one can see from the following table that unemployment is likely to increase:

ILLUSTRATIVE PROJECTION OF POSSIBLE LEVEL OF OPEN UNEMPLOYMENT, 1973-1990

	1973	1980	1990
Population ('000's)	1,872	2,225	2,822
Labor Force (000's)	585	750	991
GDP (C millions, 1973 prices)	10,162	14,684	24,845
Average Output/Man (C)	18,738	22,579	29,804
Employment (000's)	542	650	834
Unemployment (000's)	43	100	157
Unemployment Rate	7.3%	13.3%	15.8%

The growing employment problem is also reflected in the following regional projections which show: (1) that the existing age structure of the population will cause a rapid increase in the number of people in the 15 to 64 age group during the next 20 years, but that this increase will be greatest between 1973 and 1983 and (2) that there are significant regional differences in the projected rates of growth of potential labor forces, with the rates being highest in the outer regions, especially Pacifico Norte, Llanuras del Norte, and Pacifico Sur regions. 1/

1/ Projections based on study by Instituto de Estudios Sociales en Población (IDESPO) -- Proyecciones Regionales de la Población de Costa Rica by Marcos Bogan and Carlos Raabe, September 1976.

REGIONAL POPULATION PROJECTIONS (15-64 Age Group)
(Excluding Migration)

Region	1973 pop. 15-64	Proj. 1983 pop. 15-64	Proj. 1993 pop. 15-64	Avg. annual % change '73-'83	Avg. annual % change '73-'93
Valle Central	635,27[illegible]	909,982	1,096,[illegible]	3.6%	2.7%
Pacífico Central	64,652	98,306	127,[illegible]	4.3%	2.9%
Pacífico Norte	85,325	135,443	175,[illegible]	4.7%	3.7%
Llanuras del Norte	45,117	72,349	96,[illegible]	4.8%	3.9%
Atlántico	62,[illegible]	92,702	121,[illegible]	4.0%	3.4%
Pacífico Sur	8[illegible],[illegible]	132,990	17[illegible],[illegible]	4.8%	3.9%

These figures include the entire population between 15 and 64 years of age and are therefore larger than the actual labor force or economically active population. However, the rates of growth may also be understated as women tend to join the labor force with increased incomes and urbanization. There appear to be serious potential employment problems in the outer regions where projected per annum 1973-83 rates are as high as 4.8% and longer term 1973-93 rates as high as 3.9%.

The Government has recognized the seriousness of the problem and has made its resolution a key objective in its 197[illegible]-7[illegible] Development Plan. Thus far, the GOCR has concentrated on expansionary policies and efforts to maximize the growth of GDP. However, there are also a number of general policies which discourage labor utilization and which will need to be modified if employment opportunities are to increase at the required rate and in a geographically balanced pattern so that urban migration can be contained at a rate which is more consistent with urban employment opportunities. These policies fall into three major categories: (1) the employment intensity of the production process; (2) rural land use patterns; and (3) industrial location.

The most important policy area appears to be to increase the employment intensity of the production process. Annex 1, for example, shows that in relation to the increasing share of GDP generated by industry/mining and basic services, the employment absorption of these sectors is increasing more slowly.

The <u>1974 IBRD Economic Report of Costa Rica</u> points out that Costa Rica's relatively high wage structure and payroll taxes discourage labor-utilization. The existing payroll taxes (including social security payments by employers) and required vacation and bonus payments now total 29 percent of salaries, with the figure scheduled to increased to at least 31 percent in 1977/78 as the special Asignaciones Familiares pay-roll tax increases to 5 percent. This, combined with the relatively high wage rates in Costa Rica, discourages the use of labor intensive techniques.

In addition, the subsidized price of capital encourages the substitution of capital for labor, thus aggravating the problem. At present, there are two major subsidies to capital: the fiscal incentives system and the interest rate structure. The fiscal incentives system, developed as part of the 1962 CACM Treaty, is heavily biased toward capital. Industries are classified into three main categories 1/ and those granted, "industrial contracts" receive all (or some) of the following benefits for periods of 2 to 10 years:

-- 100 percent exemption from import duties on machinery and equipment for 3 to 10 years depending on industry group;

-- 80 percent exemption from import duties on raw materials, semi-

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1/ Group A industries produce industrial raw materials or capital goods or produce consumer goods, packaging materials or semi-finished products, provided that at least 50 percent of the value of the materials used in production comes from Central America; Group B industries produce consumer goods, packaging materials or semi-finished goods and obtain most of their raw materials from outside Central America, but add a significant value to the raw materials; and Group C industries include those which simply assemble, pack, cut or dilute products, including beverages and tobacco products. Most liberal exemptions are given to Group A industries and least liberal to Group C.

finished products, and packaging materials for 3 to 5 years, followed by 50 percent exemption for 3 to 5 years;

-- 100 percent exemption from import duties on fuels (except gasoline) for 3 to 5 years;

and

-- 100 percent exemption from income taxes, and taxes on assets and net worth for 2 to 10 years.

These incentives, plus relatively low interest rates (12% for loans to large industries compared to recent inflation rates near 20%) have greatly lowered the cost of capital relative to labor. This has resulted in increasingly capital-intensive industrial development. For example, some rough approximations of the industrial fixed capital stock prepared by a 1970 IBRD Industrial Mission show that in 1969, the average capital investment per worker was around $4,800, while the marginal capital investment was around $25,000.

The solution to this distorted production structure is not easy, especially since the CACM common external tariff, with relatively high rates on finished manufactures, tends to encourage a high internal cost structure. For domestically oriented production activities, a gradual elimination of the capital subsidies should not only increase labor use 1/ but also increase the tax base and -- through raising the interest rate structure -- encourage increased savings. Given the past and likely future inflationary pressures from high export earnings on coffee and government social spending such side effects would be welcomed.

The two other major policy categories are rural land use patterns and industrial location. Rural land use problems are discussed in Section E. below in some detail; it is sufficient here to point out that they discourage higher levels of employment in agriculture. The GOCR has recently begun to address the issue of industrial location; an important law designed to stimulate industry

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1/ A ROCAP airgram on Employment and Central American Integration (5/19/76) suggests an elasticity of capital/labor substitution of 0.8. Accordingly, an increase of 10% in the relative cost of capital, holding real salaries and the level of capital constant, would lead to an increase of 8% in manufacturing employment.

in the rural periphery and slow its growth in the San José Metropolitan area is currently under discussion in the National Assembly. This law provides a series of incentives for industrial location in the rural periphery, including preferential credit for fixed and working capital, training of unskilled labor, technical assistance, creation of industrial parks, and donation or preferential sale of industrial land sites.

In summary, there appear to be growing unemployment problems in Costa Rica, and these problems are likely to become more serious in the next 10-20 years, as the number of people in employable age groups increases rapidly. The employment problem is currently most serious in the Valle Intermontano, Pacífico Norte, and Vertiente Atlántica regions -- but if the rural exodus accelerates, the greatest future problems may lie in the San José Urban Agglomeration area. It is important that the GOCR focus more clearly on its employment objectives and on the impact of existing policies in both the urban and the rural areas, especially since the capability of the agricultural sector to absorb new workers seems to be decreasing and investment in the industrial sector continues to be relatively capital intensive.

D. Institutional Strengths and Weaknesses

Costa Rica's major institutional strength is its commitment to have institutions solve development problems and bridge the existing socio-economic gap. This can be briefly illustrated with three programs: municipal development, rural health, and education.

The GOCR has a wide network of institutions working towards municipal development, including decentralized planning and implementation. The country's 80 cantones are self-governing municipal entities with popularly elected councils and executives chosen by the Council members. Liaison between the municipalities and the national government is provided through the Instituto de Fomento y Asesoría Municipal (IFAM), an autonomous agency which has had a long relationship with AID (Loans 023 and 025) and has provided supervised credit and technical assistance to individual municipalities. The Dirección Nacional de Desarrollo de la Comunidad (DINADECO), the Instituto Mixto de Ayuda Social (IMAS), and the settlements of the Instituto de Tierras y Colonización (ITCO) are additional institutions working at the local level to promote strong municipalities and to provide the general population with the capability to participate in the development process.

The GOCR's health and education programs have provided the greatest outreach from the center to the rural areas. The success of the education program can be seen by the country's low illiteracy rate (11%), the high percentage of school-age children in school (70%), and the percentage of total Central Government expenditures for education (27%). The Government's Rural Health Program, established in 1971 has brought about dramatic changes. For example, mortality due to communicable diseases (and against which the Rural Health Workers vaccinate) averaged 575 between 1965 and 1969, while between 1971 and 1974, the average dropped to 220. Unfortunately, not all GOCR programs have been as successful as these health and education programs -- of the IFAM/AITEC cantonal studies which show that only one third of the communities studied perceive 1/ receiving services from the Ministry of Agriculture, INFOCOOP, IMAS, DINADECO, ITCO, and the Ministry of Transport.

Another indication of the GOCR's desire to have institutions solve development problems is the recent announcement of a major constitutional reform to be completed by 1979. This reform will be development-oriented with the hope that "development will mean the improvement of all." According to the preliminary announcement, "the proposed reforms will revolve around the questions of public sector management, and the roles of the Executive Branch, the Legislative Assembly, the autonomous agencies, and the Office of the Controller General."

Looking at institutional weaknesses, some of which may be resolved by the future constitutional reforms, there are three major problems: (1) the capacity of the Government to consider and implement policy changes, (2) the capability of the Government and private sector to manage, analyze, and plan; and (3) the status of autonomous agencies and inter-agency coordination.

The Government's programs are directed toward both redistribution and growth objectives and are highly consonant with the Congressional Mandate. Nonetheless, as illustrated in the discussion of employment problems, there are several policy alternatives relating to capital and labor prices which the Government has been unable to implement. The DAP has also pointed out other development problems -- e.g., high concentration of landholdings and poor

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1/ NOTE: Community perception depends upon the length of time the agency has been in the community and the magnitude of its program, and is not necessarily a measure of the agency's effectiveness.

utilization of land -- which could be altered by basic policy changes, such as land reform or an agricultural land tax. 1/ While the country's democratic system provides the rights of participation to the entire population and necessary development incentives, it also creates an environment in which governments need "to offer something for everyone." In Costa Rica, this is seen in policies which provide capital subsidies for the wealthy at the same time as the Government develops subsidized social programs for the poor -- even though the capital subsidies may be a partial cause of poverty for some groups. There are indications that growing unemployment (some of which might have been prevented if policies were less biased toward capital intensive investment) has led to increased poverty in Costa Rica. In light of the growth of poverty and growing resource constraints, Costa Rica will be less able "to offer something for everyone." This, in turn, necessitates increased Government efforts to use policy instruments to attack the systemic causes of poverty, as well as Government programs directed toward ex post redistribution or increased production. The Government recognizes this need, as reflected in a recent speech by the Vice-President in which he called for a new equilibrium between economic and social policies to expand the country's productive base. He also stated that the Government would not introduce new social development programs, but rather perfect the existing ones.

The second major institutional weakness, management and planning capabilities, is reflected in several ways. First, as a concrete example, the Government's program budgeting system is weak and of little use as a management tool. As stated in the draft IBRD-IDB-AID Tripartite Study, "A good example is found in the budget for the MAG agricultural extension program; each of the seven regions has described its 'physical goals' in an entirely different way, so that no comparisons can be made among them. As a result, the control of budget execution relates almost entirely to finances, not to progress toward stated objectives --- the Executive therefore lacks the help that a true program budget could give him in laying out plans and monitoring their execution."

1/ USAID understands that the GOCR is considering and plans to submit to the National Assembly a new agricultural tax which will encourage more intensive use of land. However, we have no details on the proposal at this time, and no idea of when it might go into effect.

Coordination and the role of autonomous agencies are a further major problem. Following new legislation in April 1974, the Executive Branch has obtained greater control over the major autonomous institutions. However, this new law puts the entire burden of coordination on the President's Office, thereby severing the official relationship between autonomous institutions and the related government ministries and any authority which ministers had over these autonomous institutions.

This has created coordination problems within the various sectors -- with the problem being most serious in the agricultural sector which requires close coordination of such disparate organizations as the Ministry of Agriculture, the regional agricultural committees, the Consejo Nacional de Producción, ITCO, INFOCOOP, the various commodity agencies, IFAM, and the national banking system. This complicates coordination at the local level, especially when the local level representatives find themselves caught between conflicting directives from the local "coordinator" and their central offices.

While the above management problems are not unique to Costa Rica and are probably inherent in most bureaucracies, they do need to be considered as new projects are being designed and implemented. They do affect Costa Rica's ability to absorb foreign assistance -- at both the level of designing and of implementing projects.

The above discussion also suggests a more basic problem which Costa Rica is facing: i.e., how to develop mechanisms and systems to draw people into the development process. Part of this responsibility lies within the government sector -- and to the extent that the problem has technical solutions within a single sector (e.g., health and education), the GOCR has already proven its ability to meet its responsibility and to implement effective delivery systems. However, for multi-sectoral problems, especially those which require marketing or commercial solutions, systems and mechanisms still need to be developed. A prime example lies in the agricultural sector: delivery systems exist for transferring technology and inputs to small farmers; but the small farmer lacks efficient links to commercial markets -- both to sell his product and perhaps more importantly to provide him with the initial incentive to increase his production or move into new cash crops. The development of these new kinds of systems which go beyond the delivery of goods or services is one of the crucial institutional problems in Costa Rica today -- and one which will be addressed at least partially in AID's future assistance.

E. Land Utilization

Between 1955 and 1973 the area of the country under production increased by some 700,000 hectares, with the increases greatest in the Pacífico Norte, Pacífico Sur, and Llanuras del Norte. During these years, there were also significant changes in the use of agricultural land: i.e., a decrease in the proportion of land in annual and permanent crops and an increase in pasture lands. 1/

During this same period (1955-73), the country's forest areas decreased. According to IFAM/AITEC calculations, forest reserves diminished by an average 50,600 hectares per year during the eighteen year period. This resulted in a reduced area of the country in forests: from 71 percent of total area in 1955 to 53 percent in 1973.

These changes have affected the overall economy in several ways. First, the rapid de-forestation (and lack of reforestation and conservation policy) have brought about increased sheet erosion. This has, in turn, damaged soil quality and caused farmers to move onto steeper and more marginal slopes -- which has then resulted in further erosion and deterioration of the land. Secondly, changing land-use patterns have had an impact on land ownership: i.e., the movement into pasture land has caused some small farmers to sell their land (or portions of their land) to large ranchers.

Third, and of perhaps greater importance to future AID strategy, the movement out of annual and permanent crops into extensive pasture land has had a negative impact on rural employment. While perhaps overly simplistic, the IFAM/AITEC reports on rural Costa Rica have shown that annual and permanent crops generate significantly more direct agricultural employment than the cattle industry and, as land moves out of these crops, agricultural employ-

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1/ In 1955, 15 percent of land was in annual crops; 8.5 percent in permanent crops; 39 percent in pastures; and 37 percent not in production. By 1973, these had changed to 9 percent in annual crops; 7 percent in permanent crops; 50 percent in pastures; and 34 percent not in production.

ment opportunities drop. 1/ This influence has been especially strong in the Pacífico Norte where 1973 un- and under-employment rates were 8 and 11 percent.

The issue is, of course, not as simple as the above might suggest: land use patterns are determined by various price, credit, and fiscal policies and by market, technology, and investment opportunities. Therefore, in order to change land use patterns, especially as they relate to employment, the Government will have to adopt policies which encourage farmers to move into more labor and land intensive production. As an example, the GOCR is considering adoption of an agricultural land tax which would tax unproductive excess pasture land, thereby creating a significant cost to holding idle lands. This might also influence land tenure patterns and break down the heavy concentration of land ownership in certain regions -- a pattern which has encouraged movement into extensive pasture lands. This type of land tax, and/or other policies which take account of farmer profitability and employment generation, need to be adopted if Costa Rica's scarce land resources are to be utilized efficiently.

F. Financial Constraints

There are three basic financial systems which are essential to Costa Rica's development and relevant to future AID programming: (1) financing of public expenditures through the fiscal system; (2) financing of public and private expenditures through the monetary system; and (3) financing of imports through trade and capital transfers.

1. Fiscal System

The public sector has become increasingly important to Costa Rica's growth. Looking at the entire public sector (the Central Government, autonomous agencies, state enterprises, and municipal governments), one sees that the role of the public sector is large -- i.e., total 1975 expenditures in the

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1/ For example, they estimate that land planted in rice generates an average 49 days of employment per hectare per year; land in yuca, 52 days; land in tomatoes, 273 days; land in coffee, 155 days; land in bananas, 206 days; and land in pasture, 7 days.

public sector made up 47 percent of GDP. 1/

Financing for each of the sub-sectors is different. The bulk of financing for the Central Government comes from taxes; for local governments, from taxes (33%) and capital transfers (17%); for the autonomous agencies, from taxes (including social security payments and the special additive sales tax for Asignaciones Familiares) and Central Government transfers; for state enterprises, from sale of services (53%); external credit (30%); and domestic credit (8%); and for financial state enterprises, from earned income (45%), premiums (29%), and loan repayments (6%).

The Central Government, however, still remains the heart of the public sector. Any financial problems it has will ultimately be transferred to the related public sector institutions -- therefore, we will concentrate our discussion of financing on the Central Government.

Between 1970 and 1975, Central Government tax revenue increased from C806.4 million to C2,122.2 million or an average 21.3 percent p.a. This increase was primarily due to a broad tax reform in 1972, which made income tax rates more progressive; introduced a general tax on domestic consumption, with rates ranging from 30 to 50 percent on consumer durables and luxury goods; and placed tighter restrictions on the use of personal deductions by taxpayers in the higher income brackets. Tax revenues also increased by 40 percent in 1974, primarily because of temporary ad valorem export duties and a special banana tax which yielded C200 million in additional revenue.

Despite these dramatic increases in revenue, expenditures increased more rapidly during the same period: i.e., 21.3 percent vs 24 percent for expenditures. Furthermore, the growth of Central Government tax revenue has been barely able to keep pace with the growth of GDP: i.e., in

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1/ The 1975 public sector expenditures were as follows:

Central Government	C2,869 million
Local Governments	152 million
Autonomous Agencies (university and public service institutions)	2,082 million
State Enterprises (public utilities)	1,377 million
Financial State Enterprises (bank and insurance)	1,273 million
	C7,753 million

1970, tax revenue was 12.4 percent of GDP; in 1975, it was 12.8 percent. 1/

Annex VI.A. further illustrates the accelerating resource problems of the 1970's. Thanks to new tax revenues, current account surpluses increased significantly in both 1973 and 1974. However, during this same period, capital expenditures more than trebled, thereby forcing the GOCR to increase both domestic and foreign borrowing. Also, after two years of year-end fiscal surpluses (1973 and 1974), there was a deficit in 1975.

Preliminary figures for 1976 show that current revenue will reach ₡2,725.3 million, or 19.6 percent greater than last year. Expenditures have increased even more rapidly (25%) and will probably reach ₡3,600 million by the end of the year. If these figures hold, the current revenue/expenditure deficit will reach an all-time high of ₡874 million, which will be approximately 5 percent of projected end of year GDP -- and significantly larger than in prior years.

Because of the high (and increasing) proportion of current expenditures in the GOCR Budget, this resource problem may grow more serious in future years -- e.g., salary increases and such large-scale redistribution programs as Asignaciones Familiares have greatly increased the costs of government. As stated in the June 1976 IMF Staff Report (Article VIII Consultation), "the Mission emphasized once again the need for more spending austerity and expressed concern about the recent steep increase in current expenditure at the expense of capital outlays."

In an attempt to control deficits, a new Tax Reform Package was passed in May 1976 which increases the corporate income tax and puts new taxes on dividends and on the sale of real estate. During the final six months of the year, these reforms should yield an additional ₡110 million.

However, this, in itself, points out a weakness of the present tax system -- i.e., its relative inelasticity. Subtracting out this ₡110 million "reform bonus", 1976 current revenue would increase only 14 percent over the

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1/ NOTE: This ratio is for Central Government Revenue only. If one looks at general government tax revenue and Social Security payments, the ratio increases to 20 percent.

1975 level. Also, the big revenue increases of 1973, 1974, and 1975 were due to the introduction of new taxes and/or other basic changes in the tax structure. While such dramatic changes in the tax structure are unlikely in the future, the 1974 IBRD Report does suggest a number of possible changes. It noted shortcomings in the taxation of individual and company incomes and in particular in the taxation of agricultural income. It pointed out that real property is assessed unrealistically and taxed at low rates. 1/ Given the difficulties of taxing land and the incomes of large farmers and the significant benefits they receive from Government programs, the Report recommended that more extensive use be made of export taxes on major agricultural exports. Costa Rica's tax on coffee exports is one of the lowest in the world. However, it should be noted that recent efforts to tax coffee exports were met with strong protest and the Government dropped its plan. The Report also pointed out the loss of revenue due to exemptions under the Industrial Incentives Law -- a law which has also contributed to the capital intensity of Costa Rican industry.

The GOCR will therefore need to face its growing budgetary resource problems on both the revenue and expenditure sides of the ledger. It will need to reform further its tax system and it will need to consider expenditures more carefully, emphasizing "preventative" programs, as opposed to "curative" ones -- e.g., development programs geared to providing employment opportunities and improved incomes rather than services alone.

2. Financial System

Following two years of rapid credit expansion (50% in 1974 and 38% in 1975), the GOCR has adopted more restrictive monetary policies. Credit ceilings have been set and the Central Bank has now unified investment and commercial sections of the banking system. 2/ Interest rates were also modified in 1976 to discourage borrowing from the Central Bank, rediscount rates were raised

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1/ NOTE: The GOCR's low property taxes are also inconsistent with the over-all Government objective to redistribute income.

2/ NOTE: In 1975, investment banking sections accounted for nearly half of all bank credit. They were limited in their lending only by the amount of loanable funds they had, and since they could offer higher interest rates, they could attract greater savings.

to a range of 6 to 14 percent and the rate for credit to commercial sections was increased from 7 to 10 percent. Rate differentials for deposits were smoothed out by lowering those paid by the investment banking sections on time deposits, although, the average level of interest rates in Costa Rica still remains high relative to investment alternatives in near-by countries.

The financial system is strong and still attracts substantial foreign capital. It is also active in the country's development process and provides investment capital to all of the major sectors. As an example, at the end of 1975, the national banking system had outstanding loans of $119 million in the agriculture sector, $135 million in the cattle industry, and $128 million in the industrial sector. In recent years, the largest amount of new credit has gone into the agricultural sector. With credit expansion now under control, we see only two significant problems in this sub-sector: (1) the artificially low interest rates for "small farmer" credit and (2) the inability to channel credit to the neediest.

As reported in the draft AID-IBRD-IDB Tripartite Study, low interest rates for agricultural credit were intended as a subsidy to small farmers, reducing the cost of credit to them and therefore encouraging them to apply for credit and invest in new technologies. Unfortunately, the stipulated interest rate (8%) has been so low that bankers have hedged against risk, thereby offering credit only to those with good security (most of whom are unlikely to be the original target group of small farmers).

This is just one part of the broader issue of how to channel credit to the neediest -- e.g., to small farmers and to small industrial enterprises. While the issue is admitedly complex, the GOCR needs to consider new ways to bring the banking system more closely into the development process and to ensure that these funds are used most efficiently. Present interest rates are lowest for loans to small farmers and small industries (8%), as opposed to 10 percent for medium sized industries, 12% for large industries, and 20 percent for personal loans. As stated above, this tends to lower the target group's access to the banking system. An alternate policy would be to relax interest rate policies: To quote:

> "Small scale business benefits from both higher deposit and, paradoxically, higher loan rates. Higher deposit rates which result in increased resources in the financial system mean that small businessmen are, *ceteris paribus*, more likely to be

able to obtain institutional credit. Not only are available funds greater but demand of big business which normally receive priority are curbed by higher loan rates. Hence, higher interest rates on both deposits and loans tend to promote greater income equality." (Resource Mobilization and Financial Development by Maxwell Fry, 1974, p. 89.)

3. Balance of Payments and Debt Servicing

As discussed in the previous section on "Economic Dependence", Costa Rica suffers from chronic balance of trade deficits and has avoided serious balance of payments problems only because of substantial capital inflows. However, because of increasing capital outflows and debt repayment, it is unclear how long Costa Rica can continue to depend upon these capital inflows to finance its trade deficits.

It is, in fact, debt servicing which is of major interest. During the five year period 1968-72, debt service payments averaged $27.8 million. However, beginning in 1973, amortization and interest payments have increased significantly: $59.5 million in 1973; $65.4 million in 1974; and $73.0 million in 1975. Outstanding debt has similarly increased, more than doubling between 1972 and 1975. 1/ During this same period, the debt service ratio has also increased (from 11.9 percent in 1970 to 14.9 percent in 1975), although it is still within the IMF's recommended ceiling of 15 percent.

During 1974 and 1975, debt service payments increased at approximately 10 percent p.a. If servicing requirements continue to increase at approximately this level, the GOCR should not face serious problems in the near future. However, if this rate were to increase and if the coffee and banana export industries were to hit a downswing, the debt service ratio could easily rise to 20 percent of exports.

This possibility becomes more real when one looks at the composition of Costa Rica's present outstanding debt, a growing proportion of which is at commercial terms: e.g., nearly 50 percent of total outstanding credit is at commercial interest rates.

1/ Outstanding debt increased from $222 million in 12/31/72 to $477 million on 12/31/75.

III. GOCR OBJECTIVES AND DEVELOPMENT PRIORITIES

Past economic growth has been impressive; however as recently stated by a Government Minister: "Inequality is perhaps greater today than it was 20-50 years ago. We have learned that the increase in the indices of per capita income have no meaning as long as development leaves behind considerable sectors of the population." Even though the middle class has grown, the relative position of the lowest 20 percent of the population has worsened since 1961. The GOCR's response has been to shift greater attention to narrowing socio-economic differences, with its current objectives and development priorities best summarized by the expression "redistribution with growth."

To look first at its redistribution efforts and attempts to narrow the socio-economic gap, there has been a slight change of focus during the past two years. Previous governments have emphasized urban/rural differences and, in an attempt to narrow the differences, have concentrated resources in the rural areas. The present administration has, however, redefined its objective as "narrowing of the socio-economic gap" -- thereby calling for a transfer of goods and services to the country's poorest, regardless of where they live.

The Government has initiated a number of programs to redistribute income: e.g., high support prices for agricultural production, minimum wage adjustments favoring low-income workers, and inclusion of previously uncovered non-contributors in the Social Security System (primarily agricultural workers and small farmers). It has also expanded services in health, nutrition, family planning, education, potable water supplies, and low-cost housing -- all of which directly relate to the Congressional Mandate to "(1) increase agricultural production through small-farm labor-intensive agriculture, (2) reduce infant mortality, (3) control population growth, (4) promote greater equality of income distribution, and (5) reduce rates of unemployment and underemployment."

The basic mechanism for its redistribution objective is the recently established Asignaciones Familiares y Desarrollo Social (Family Assistance and Social Development) Program. This program focuses on the delivery of services to marginal populations -- i.e., rural health, nutrition and feeding of children and pregnant women, rural housing, potable water supplies, community development, organization of cooperatives, and training. As an example of the income distribution effect, it is estimated that a family whose children receive meals through the Nutrition Program will save approximately ₡100 per week -- with a concomitant increase in real income. Special tax revenues have been established to fund Asignaciones Familiares programs: an increase in the general sales tax from 5 to 8 percent and a special payroll tax which will increase from 2 percent in 1975 to 5 percent in 1978. The 1975 Budget totalled ₡179 million (nearly $21 million) and was devoted primarily to health and nutrition and to income transfers for non-CCSS contributing pensioners.

The GOCR has also shown its commitment to narrowing the country's socio-economic gap through a number of other programs. At the most macro level, one can see this commitment in the 1975 Central Budget. Out of total expenditures of ₡2,929 million ($343 million), 28.0 percent went for education, 5.7 percent for health, and 5.8 percent for labor affairs and social security -- or nearly 40 percent of total expenditures for these social services.

The National Social Security System (CCSS) provides medical care, insurance, pensions, scholarships and training to a growing number of people. In 1973, 61 percent of the population was protected by health insurance and 46 percent by old-age and life insurance -- by 1975, these had increased to 70 percent and 58 percent, respectively. The Ministry of Labor has also recently initiated child care centers in order to allow women to enter the official labor force.

In the agriculture sector, the Ministry of Agriculture and associated agencies have concentrated many of their activities on small farmers: e.g., the production oriented Projects-by-Campaign program; the cooperative movement which organizes and supports groups of farmers; the national banking system's production credit program for small farmers; the Land Tenure and Colonization Institute's cadastral survey, land titling, and resettlement programs for landless laborers and small farmers; and the National Production Council's program to purchase basic grains at guaranteed minimum prices. As an example of the small farmers' increased access to government-sponsored services, the Central Bank's loans to small farmers more than trebled between 1970 and 1974.

Costa Rica has a low-cost rural health program which has extended health services through the use of paramedical and auxiliary personnel. The program is now providing coverage to approximately 50 percent of the target rural population of 650,000 persons in towns of less than 500 inhabitants. One early result has been a dramatic decrease in the infant mortality rate: from 60 in 1970 to 37 per thousand in 1974. The GOCR has also invested substantial resources in family planning programs, the result of which has been a reduction in the CBR from 47.5 in 1960 to 28.3 in 1973.

The GOCR has also devoted a considerable part of its budget to the expansion of education opportunities, resulting in a literacy rate near 90 percent and approximately 70 percent of children in the 5-14 age group enrolled in school. This has, in turn, resulted in a population which is receptive to new ideas and technologies and which is able to participate fully in the development process -- both by demanding services through the democratic electoral process and by being sufficiently educated to utilize the services once received.

Recognizing its growing unemployment problems, the GOCR has made employment generation a major objective in its 1974-78 National Plan. One important step is the Government's new Law for the Development of Rural Industries which aims "to stimulate productive and service industries in the periphery areas of the country, to increase employment in said areas, to contribute to an improved distribution of income, to promote a better utilization of domestic natural resources, and to elevate the lives of the rural population and diminish migration toward urban centers."

The GOCR also recently announced a new Urban Development Program which will total ₡1,800 million ($210 million) over the next four years. The program will include environmental sanitation, water regulation, urban renewal, eradication of slums, improved roads and transport, financial assistance to small enterprises, health and nutrition, and various urban services.

Besides these programs which are to meet the country's longer term social objectives, the National Planning Office recently drew up short and medium-term strategies for the major productive sectors.

The medium-term strategy in the agriculture sector calls for changes in land tenure patterns; expanded use of new technologies; expanded and diversified agricultural exports; zoning of principal agricultural activities; and promotion of employment-generating production. In the short-term, emphasis is being given to production needed for domestic consumption -- i.e., for direct consumption (food grains) and for use as industrial raw materials -- partly through the strengthening of extension, credit, and marketing services for small and medium farmers. Also, in order to sell exportable surpluses the Government is trying to develop new export markets, e.g., Jamaica for beef

In the industrial sector, medium-term plans call for a greater use of domestic natural resources; development of more labor-intensive technologies; expansion and diversification of industrial exports to countries outside the CACM region; greater efficiency and higher productivity in existing industries; and the decentralization of industry. In the short-term, priority is being given to strengthening the industrial planning system; improvement of market information systems; improvement of export incentives; guarantees of a steady supply of raw materials; and the development of agro-industries.

However, as stated throughout this document, many basic GOCR policies are inconsistent with its broad over-all objectives. The prime example relates to its employment objectives: the Government has a stated objective to develop more labor-intensive technologies, but its basic economic policies subsidize capital investment. Some of this inconsistency is due to recent changes in Government objectives -- i.e., towards a stronger redistribution emphasis -- and the time lags in changing policies. However, some is also due to a Government propensity to attack problems with programs, rather than policy changes, and the difficulties of implementing some of the required policy reforms in a democratic system, and within the context of the CACM, all of whose members have similar policies of subsidizing capital intensive industrial technology.

IV. OTHER DONOR ACTIVITY

Foreign capital has historically played and continues to play an important role in Costa Rica's development process. The May OFIPLAN Report on External Debt shows total "active" hard currency loans of $[illegible] million, of which $574 million was undisbursed as of 12/31/75. 1/ Although only part of this outstanding credit can be properly classified as "other donor activity", we feel that it is appropriate to discuss commercial credit along with traditional foreign economic assistance because of the substitutability of credit in Costa Rica.

Looking at the total undisbursed balance by sources (and by type of loan for the three major lenders), we see the following:

Inter-American Development Bank		$148.8 million
Roads	($12.3)	
Electric Power	(58.9)	
Inuds. Dev. & Credit	(8.2)	
Rural Health	(20.0)	
Sewage & Water Systems	(13.2)	
Education	(9.6)	
Agriculture	(11.3)	
Fisheries	(13.6)	
Misc.	(1.7)	
World Bank		$114.8 million
Roads and Transport	($40.2)	
Electric Power	(41.2)	
Telecomm.	(22.[illegible])	
Agriculture	(4.[illegible])	
Education	(6.2)	
Central American Bank for Econ. Integ.		$ 91.1 million
Roads & Transport	($38.2)	
Elect. Power	(17.[illegible])	
Housing	(15.0)	
Water Supply	(6.2)	
Agriculture	(2.8)	
Education	(2.8)	
Misc.	(8.8)	

1/ NOTE: This includes $253 million for loans which are still be negotiated and/or have not yet been finally approved by the GOCR. It is therefore an over-estimate of legal debt outstanding.

Agency for International Development	$ 16.4 million
Venezuelan Oil Fund	$ 55.8 million
IMF Oil Fund	$ 14.8 million
Government of Britain	$ 3.1 million
Foreign Banks	$ 99.0 million
Other	$ 36.8 million
GRAND TOTAL	$574.1 million

As indicated in the above listing, a major portion of foreign credit has gone into traditional infrastructure projects. Looking at the total undisbursed balance of $574.1 million, one finds that 20 percent is for transport; 20 percent for electric power and communication; 33 percent for miscellaneous infrastructure and capital imports; 7.5 percent for agriculture; 4.7 percent for health; 3 percent for education; and 1.2 percent for pre-investment surveys.

During the next two years, both the IBRD and IDB are planning lending programs of approximately the same magnitude as recent years. The IBRD is currently analyzing three possible new loans: (1) Agricultural Credit Rural Development to finance livestock and crop development, as well as possible feeder roads and other rural infrastructure -- proposed $15 million; (2) Urban Transport fo finance improvement of traffic and transit facilities -- amount still to be determined; and (3) Boruca Power and Aluminum to finance an hydroelectric project for an aluminum smelter -- amount still to be determined and further project preparation delayed until a firm decision is made about a company to construct the smelter plant. Besides two projects in the agriculture and education sectors which are still awaiting final approval by the GOCR and the IDB, the IDB is currently analyzing three possible new projects: (1) Rural Roads, Third Stage which would extend the Bank's current feeder road program -- proposed $46 million; (2) Education to finance a strengthened GOCR technical and vocational education program -- proposed $9.8 million; and (3) Pre-Investment Fund, II to finance feasibility studies and training for OFIPLAN -- proposed $4 million.

In reviewing other donor credit programs, it is also interesting to note the prevailing terms and interest rates, especially in light of the previous discussion of external debt servicing -- i.e., that 65% of Costa Rica's "active" hard currency loans have terms less than or equal to 25 years and greater than or equal to 5 percent and that 34 percent have terms less than or equal to 10 years and greater than or equal to 6 percent. The IBRD's range from 30 years and 7-1/4 percent to 25 years and $8\frac{1}{2}$ percent; the IDB's range from the Special Fund terms of 35 years and 2 percent to 20 years and 8 percent; CABEI's range from 35 years and 2 percent to 10 years and 8 percent; and the British Government's only active loan is for 25 years and 6 percent. The bulk of the remaining credit is at regular commercial terms.

While foreign capital transfers are the most important part of all donor and commercial transactions, there are also extensive technical assistance activites in Costa Rica -- both grant and loan funded. This technical assistance is provided by the UNDP and related UN agencies; by the OAS; and by bilateral programs from Japan, Canada, West Germany, Mexico, Switzerland, Spain, Brazil, and the United States.

Looking at various sectors, we see the following types of technical assistance:

Transportation: TA from UNDP for the study of transport in the Metropolitan Area; from ICAO for civil aviation; from UNCTAD for port administration and systems; and from Japan for construction of ports.

General Economy and Planning: TA from UNDP for general planning; from OAS for tax and budgetary policy; from UNFPA for statistics and census; from IDB for institutional development-CODESA; and from CEPAL for professional training.

Energy and Communications: TA from UNDP for electrical transmission; from ITU for telecommunications; and from UPU for the postal service.

Meteorology: TA from UNDP/OMM and UNDP/WMO for hydrometeorology

Health: TA from WHO in health planning, malaria control, sanitation, and system development; from West Germany for hospital assistance in

Nicoya and San Isidro; from UNFA for family planning services; and from OAS for health insurance.

Agriculture: TA from FAO in forestry development, animal health, irrigation, fisheries, plant pathology, agricultural diversification, agrarian reform, conservation, and prevention of coffee plant rust; from WFP for the GOCR feeding programs; from West Germany for forestry, bee-keeping, and agricultural education; from Switzerland for agricultural mechanization; from IDB for fisheries development; from OAS for agricultural and rural development; and from ILO for rural development.

Education: TA from UNESCO for education planning and audio-visual communications; from West Germany for technical and engineering training; from Canada for administrative assistance to the University of Costa Rica; and from Mexico, Spain, Brazil, and Japan for professional training.

Industrial Development: TA from UNDP for mining investigation; from UNIDO for industrial development and training; and from OAS for planning and production control.

Miscellaneous: TA from UNCTAD for export promotion, customs improvement, and Central American integration; from GATT for training; from OAS for tourism development; and from ILO for employment promotion.

ROLE OF AID AND PROGRAM STRATEGY

A. Rationale

As shown in the Development Overview Section, Costa Rica has achieved significant economic and social gains during the past 25 years. This has resulted in a relatively strong national economy, with high per capita averages for production and consumption. This, however, is not to say that Costa Rica no longer faces development problems and that there is no future role for AID. It is rather that the role and rationale for AID must change to coincide with Costa Rica's changing economic status.

The first step in the changing AID-Costa Rica relationship is to acknowledge formally Costa Rica's past economic achievements; therefore, the U.S. Mission to Costa Rica proposes that Costa Rica be considered an "intermediate" AID country and that the new AID loan terms outlined in Policy Directive #66 become effective beginning in FY78. 1/

The Mission feels that a poverty-based development assistance program is appropriate at this time for the following basic reasons: (1) the existence of a poverty group which corresponds to AID criteria; (2) the presence of a Government which shares in high degree the objectives of the AID Congressional Mandate; and (3) the presence of development problems, including changing policy requirements, which AID can help the GOCR to address. In addition, there is the United States interest in assisting a democratic government, which has an exemplary tradition of protection of human rights, to solve its development problems and reach "graduate status."

The first two of these reasons have been discussed thoroughly in this document. First, according to our "moderate" definition of the AID income benchmark, the poverty group is nearly 42% of the total population -- or approximately 800,000 persons in both rural and urban areas. Secondly, the GOCR's genuine interest in helping the lower income groups and the closeness of the

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1/ NOTE: Costa Rica's per capita GDP (1973 prices) is $655, or well above the PD-66 benchmark of $500. Also, approximately 65% of Costa Rica's active hard currency loans are at terms harder than those proposed in PD-66, indicating a GOCR willingness and capability to borrow at harder terms.

AID Congressional Mandate to GOCR objectives have created an environment which is highly congenial to AID's criteria. This has, in turn, allowed for the development of innovative programs such as the Nutrition Loan signed in Spring 1976 -- and promises to provide further opportunities in such areas as ERTs satellite technology and experimental land-use colonies which introduce new cash crop and marketing systems. Costa Rica's receptivity to AID concerns and past successes 1/ also provide an important learning ground for AID worldwide through evaluations of past and on-going GOCR programs.

The presence of significant development problems was also discussed earlier in the DAP. Several of these -- socio-economic disparity, rising unemployment, and poor land utilization -- are directly related to the existence of a target poverty group. However, three problems -- financial constraints, economic vulnerability, and institutional weaknesses -- form an independent rationale for a development-based AID program. While the financial constraints facing Costa Rica are not a serious problem at this time, there are pressure points (growing budget deficits and chronic balance of trade deficits) which emphasize the vulnerability of the economy to external forces: especially to reduced prices for traditional agricultural exports, to reduced foreign capital inflows, and to reduced prices for non-traditional exports, which given Costa Rica's relatively high wage structure makes Costa Rican production potentially less competitive. These financial constraints and the high degree of economic vulnerability weaken the over-all economy and the capacity of the Government to help the target poverty group -- and, as such, form part of the AID rationale.

The GOCR's institutional and management weaknesses are an additional reason for continued AID assistance, both to help the Government resolve management-related problems and, perhaps more importantly, to push for more favorable policies which will leave the GOCR more capable of dealing with poverty without external assistance. As an example, in future employment generation programs, AID would encourage the GOCR to make policy reforms which will alter the relative prices of labor and capital and therefore promote greater labor utilization.

1/ For example, decrease in the Infant Mortality Rate from nearly 70 in 1963 to 37 in 1974 and decrease in the Crude Birth Rate from 47.5 in 1960 to 28.3 in 1973.

B. USAID Strategy

The Mission strategy will be based on the development problems described in Section II of the Development Overview i.e., socio-economic disparities, including increased migration and growing urban poverty, economic dependence; rising unemployment; institutional weaknesses; poor land utilization; and financial constraints. Each of these problems is related to others: e.g., poor land utilization leads to unemployment which leads to low incomes which leads to socio-economic disparity; similarly, high unemployment and low incomes reduce tax revenue and increase government welfare expenditures, thereby leading to financial imbalances.

AID's major objective will be to narrow the socio-economic gap and to help Costa Rica move toward a "graduate status" in which the country will be able to deal with poverty to a greater extent with its own resources. AID programs will address the intermediate problems suggested in the previous paragraph and will be directed toward the entire poverty group identified in Part I (Poverty Profile). However, increased attention will be given to the rural non-farming poor and the highly concentrated poverty located in the San José Urban Agglomeration and its surrounding Outer Ring where some 55% of the country's total poverty group is located.

First, with regard to Costa Rica's high degree of economic dependence and vulnerability to external forces, AID will assist the GOCR to diversify its agricultural production and exports. Besides diversifying the country's dependence on traditional agricultural exports, this would have immediate employment and income effects -- i.e., many of the potential crops are labor intensive and high value and, given proper marketing channels, could be produced by small farmers. Similarly, to the extent that small-scale, labor-intensive export industries can be promoted in the San José Metropolitan Area, AID will be addressing simultaneously Costa Rica's need to diversify exports at the same time as employment opportunities are increased.

With regard to the problem of rising unemployment, and as stated above, part of the solution for rural areas lies in agricultural diversification and the increased production of high value, labor-intensive crops. However, because non-farmers comprise the largest rural poverty group and because the agricultural sector cannot provide all of the additional labor opportunities required, AID will work with the GOCR in the promotion of small-scale rural and agro-industries, as well as small enterprises in the San José Metropolitan urban area.

This mix of urban and rural employment generation will be crucial if negative migration effects are to be avoided. AID will also assist the GOCR in instituting more labor intensive investment policies.

Closely related to both of the above is the problem of poor land utilization -- in terms of production, income, and employment generation. USAID will work with the GOCR to improve land use planning, with the longer term objectives of increasing income and employment opportunities and halting the declining fertility of small farms.

In addressing the above problems, there will be the two remaining cross-sectoral constraints: financial and institutional. Because of potential financial problems and a desire to permanently narrow the socio-economic gap, AID will direct its programs toward "productive", rather than ex post redistribution programs, many of which have already been initiated.

The remaining cross-sectoral constraint, institutional weaknesses, will be addressed in all AID programs -- i.e., to improve coordination, resource allocation, and bureaucratic procedures. But, of perhaps greater importance, AID will work with the GOCR (1) to develop new mechanisms to draw people into the development process and to provide them with access to improved income-earning opportunities; (2) to make economic policies more consistent with its broader social objectives, and (3) to improve planning and coordination.

In terms of AID's logical framework, the program will follow these illustrative guidelines:

PROGRAM GOAL: To assist the GOCR in achievement of graduate status.

PROJECT GOAL: To narrow the socio-economic gap by increasing real incomes of the poor.

PROJECT PURPOSES: To provide increased rural employment opportunities through crop diversification, improved land use planning and rural industries; to link small farmers to commercial markets so they can increase production and therefore increase employment opportunities and incomes; to re-orient agricultural research to small farmers so they can reduce production costs and therefore increase real incomes; to provide increased urban employment through promotion of small enterprises and improved training; and to improve institutional capabilities so that the GOCR will be able to plan and implement policies and programs to reduce poverty on a permanent basis.

The ultimate goal is for Costa Rica to achieve "graduate status." The Mission defines this as a capacity to deal with poverty without highly concessional external resources from the U.S. Government -- i.e., the point at which poverty is reduced to a manageable size and when institutions and Government systems are able to respond effectively to poverty. It is impossible to set a target date for achievement of "graduate status" and the end of a poverty-based justification for an AID program. However, the Mission at this time estimates that the rationale for a traditional development assistance program will terminate by the end of FY80.

This timeframe will allow the Mission and GOCR to develop a purposeful culmination strategy that is based on the principles outlined above. We will also formulate criteria to determine when "graduate status" is achieved. Before the end of FY80, the country will be evaluated against these criteria, such as:

-- the achievement of "low inequality" status, i.e., lowest 40% of population having at least 17% of total income ; 1/

-- the achievement of AID's health benchmarks, with minimal population living in areas of relatively high crude birth rates and infant mortality rates;

-- existence of effective national employment and production policies able to reduce further urban and rural poverty;

-- existence of effective systems which provide credit, technical assistance, training, technology, and other inputs for increasing small farmer productivity and employment opportunities in rural and urban based industries/enterprises; and

-- reduction of economic dependence and/or strengthened financial position.

1/ A distribution benchmark used in Redistribution with Growth.

If these (and/or other) criteria have been reached, the justification for a development-based AID program will end. However, there will still be a role for U.S. assistance, although this role will no longer be limited to concessional lending for poverty-based projects. Rather, future U.S. assistance should focus on questions of concern to "middle income" countries, e.g., ecology and conservation, science and technological transfer; export and trade promotion; industrial sector management; and, to the extent required, innovative poverty-based programs.

The Mission recognizes that neither AID nor the U.S. Government have yet developed a firm strategy for "middle income" countries. Therefore, we can only re-iterate our belief that there should be a continuing U.S. role in countries which have reached "graduate status" and that Costa Rica should qualify for any such continuing assistance. Also, USAID and the GOCR would like to participate with AID/W in the development of any new strategy dealing with "middle income" countries.

C. Proposed Resource Requirements

Looking at resource requirements and more specific project directions, the Mission sees the following over the next four years. 1/

FY77: Resource requirements are as stated in the FY78 Annual Budget Submission. The year will be devoted to sector assessments (Rural Development/Agriculture and Urban Environment) and project development. Project development will also include rationalization of our two-pronged attack on poverty in both rural and urban areas, especially as these relate to one another through migration. A grant Project Paper on Small Farmer Incomes, focusing on the production and marketing of high-value cash crops, will also be submitted. A new family planning grant project will also begin in FY77.

FY78: Resource requirements will be as follows for two new projects proposed in the FY78 ABS:

1/ These requirements and project directions may, however, change as the GOCR and USAID develop "graduate criteria" and a firm graduate strategy.

(1)	Urban Environment	$15,803,000	
	Development Loan	($ 6,478,000)	
	Housing Guarantee	($ 9,325,000)	
(2)	Land Productivity and Rural Employment		$[illegible],000
	Development Loan	($5,000,000)	

In addition, there will be continuing grant fund requirements for the Family Planning and Small Farmer Income projects.

FY79: Resource requirements will be approximately $8 million for a loan in the agricultural sector which will aim to consolidate past programs (especially loans 022 and 025 which should be fully disbursed by FY79) and to upgrade agricultural planning and coordination, including the relevance of research to small farmer needs and the dissemination of these research results.

In addition, there will be continuing grant fund requirements for the Family Planning Project.

FY80: Resource requirements will be approximately $5 million for a long-term technical assistance loan which will address Costa Rica's over-all management, planning, and policy-related needs, regardless of sector. In addition, the Mission anticipates a Housing Investment Guarantee of approximately $10-15 million to expand urban shelter infrastructure successfully demonstrated in the FY78 Urban Environment Loan. The objective of this TA project will be to provide Costa Rica with the means to reach "graduate status," i.e., the capacity to deal with poverty without concessional U.S. assistance.

The Family Planning grant project will terminate at the end of FY79. At this time, a follow-on project is not anticipated but limited funds should be available, either through AID/W or the broader TA loan, to assist the GOCR development an effective long-term population policy.

D. Proposed Manpower Requirements

The Mission anticipates that manpower requirements will remain at or near the present level. Excluding International Development Interns, the U.S. direct-hire staffing pattern should be as follows over the next four years:

	FY77	FY78	FY79	FY80
AID Affairs Officer	x	x	x	x
Secretary	x	x	x	x
Capital Development Officer	x	x	x	x
Program Economist	x	x	x	
Controller	x	x	x	x
Urban & Regional Development Officer	x	x	x	x
Population Officer	x	x	x	
Rural Development Officer	x	x	x	x
Assistant Rural Development Officer	x	x	x	x
Agricultural Economist	x	x	x	
Agricultural and Rural Industry Credit Advisor		x	x	
General Services Officer (JAO)	x	x	x	x
	11	12	12	[illegible]

In addition, there will be contract employees funded under individual loans.

PART III

SECTOR DISCUSSIONS

AGRICULTURE/RURAL DEVELOPMENT

I. Introduction

Between 1966 and 1975 Costa Rica had the fastest growing agricultural sector in the Western Hemisphere, both in terms of total and per capita value product. Most of this expansion had been in export commodities (coffee, bananas, sugar, and beef) until recent years, when dramatic production increases occurred in domestically-consumed basic grains (rice, beans, and corn) and dairy products. In both the export and domestic sectors the increased value product has resulted from a combination of strong prices, increased yields, and expanded acreages.

Though this aggregate performance has been excellent, closer analysis reveals a large group of impoverished farmers and landless agricultural laborers who have not shared in the overall growth. Preliminary results on an analytical study of the rural poor, based upon the 1972-73 national censes, reveals that more than 400,000 rural people had per capita incomes below the AID poverty line of $150, with nearly half of these falling below $65 (1969 prices). Seventy-five percent of this group of rural poor are reported as not being farmers, with the vast majority dependent upon agricultural work as their source of income. Nearly all the small farmers included in the poverty group also reported that they worked off-farm as agricultural laborers.

II. Sector Goals

AID's Target Group and Target Group Goals

These poor rural families who depend upon agriculture for their livelihood comprise AID's rural sector target group, and AID's basic rural sector goal has been and continues to be to improve their quality of life. Through programs in health, nutrition, family planning, sanitation, etc. the USAID is attempting to have a direct impact on rural welfare. In agricultural development the path is less direct, with the ultimate goal of improving welfare preceded by several levels of intermediate goals, the first being to increase the incomes of the rural poor. Given their economic situation, incomes improvement for the rural poor will derive from:

a. Increasing the long-term profitability of the small farm enterprise and

b. Generating rural employment opportunities.

These then are the basic objectives of our rural development program.

GOCR Rural Sector Goals

The most basic goal of the GOCR's rural sector strategy is to improve the quality of life in the rural areas and thus avert large-scale rural-urban migration, a goal which is quite consistent with the USAID's. The GOCR implements this strategy through a broad range of programs affecting nearly every aspect of rural life. Seventy percent of total public investment for 1977 is planned for rural areas, with approximately US$300 million planned for roads, rural electrification, potable water systems and health service infrastructure.

Agricultural policy is one of the tools with which the government can fashion this overall strategy. However, goals for the agricultural sector are broader than those which focus on the rural poor, i.e., income distribution and employment generation. Given its basic role in the nation's economy, planners expect agriculture to continue expanding its contribution to the export and domestic markets. A specific agricultural sector goal determined by the incumbent Government is self-sufficiency in basic grain production by 1980.

These separate goals of equity, employment, and aggregate performance should be consonant, and in a global sense probably are. However, the present situation of the agricultural sector in Costa Rica and the policies employed indicate that these goals may conflict in some specific and important cases, i.e. that which may be necessary to ensure expanded output in a certain subsector may prove to be a serious constraint on small farmer participation and employment generation. Or that which may be highly effective in the short run to improve small-farmer incomes may in the long run eliminate presently profitable small farm activities. These phenomena are illustrated below.

In the following sections we shall discuss some major elements of the agricultural sector, insofar as they affect and possibly constraint achievement of AID target group goals. Again these are (a) increasing the profitability of small farm enterprises, and (b) generating rural employment opportunities.

Commentary on each of these points will be brief, with detailed elaboration forthcoming in the agricultural sector assessment which shall be completed in December.

III. Description of the Agricultural Sector

Cropping and Land-Use Patterns

Discussions of Latin American agriculture often revolve around any or all of the following binary axes:

1.	Size:	Large	vs	Small
2.	Market:	Export	vs	Domestic
3.	Technology:	Modern	vs	Traditional
4.	Land Use:	Extensive	vs	Intensive
5.	Income:	Rich	vs	Poor

with the intent of classifying activities or subsectors as being in one column or the other. Such generalizations cannot be made for the major agricultural production activities in Costa Rica, as the following analysis demonstrates.

The Export Crops

Coffee, sugar, bananas, and beef. These four products accounted for 64% of Costa Rica's foreign exchange earnings in 1975, with \$97.0 million, \$48.2 million, \$134.6 million, \$32.1 million respectively. 1/

Coffee

Traditionally one of the major foreign exchange earners, and sure to retain that position for several years due to record international coffee prices, coffee is a labor-intensive, small-farmer 2/ high technology (Costa Rica has one of the

1/ Source: Department of Statistics, Banco Central de Costa Rica (BCCR).

2/ Of the 32,353 reported coffee plantings in 1973, 85% were smaller than 3 hectares. These small plantings produced 26% of the total crop. Source: 1973 Agricultural Census, Dirección General de Estadística y Censos.

highest yields in the world), and highly-profitable crop. As with the other major export crops, a strong growers/exporters federation provides members with technical assistance, inputs, and highly developed processing and marketing system linked to foreign markets. Acreage has been expanding slowly; the government instead encourages (through subsidized credit) the renovation of old plantings and the increased use of agrochemicals. Possible problems: harvest labor is becoming increasingly expensive and difficult to find; much of the good coffee land is near expanding urban populations with competing land-use priorities; long-term price prospects are weak.

Bananas

Along with coffee, it is a major foreign exchange earner with nearly all export production controlled by two foreign companies, United Brands and Standard Brands on large holdings in both the Atlantic and the Pacific coastal zones. Between them they produced 65% of the 1975 export crop. 1/ In the last decade they have been buying export-quality fruit from an association of smaller-scale national banana producers (ASBANA). This crop is land and labor intensive and is generally grown under a high level of technology. Possible problems: politics, world prices, plant pests.

Sugar

Mainly produced on large farms or plantations connected to sugar mills, there still existed in 1973 6,500 holdings under 20 has. producing 20% of the cane crop. Grown under a wide range of technologies (63% of the acreage fertilized in 1972), it is often viewed by small-scale farmers who have access to a mill as secure and steady source of income. Labor intensive, about one half of the production is exported and one half consumed domestically. 2/ Constraints: uncertain international prices.

Beef

A recent addition to the major export commodities, beef has in recent years moved ahead of sugar in total earnings. Most beef cattle are raised on

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1/ Source: Comercio Exterior, Banco Central de Costa Rica.

2/ Sources: 1973 Agricultural Census, Report of Agriculture Attaché, AMEMB, San José extensive, minimum-technology cattle ranches in Guanacaste province. High export prices, reasonable access to the U.S. market, and abundant cheap credit (BID $20 million) spurred the growth of these ranches, which were purchased from numerous small-holders who cleared the forest and planted a few crops of basic grains before selling out at a profit and moving on. On the Atlantic Littoral some progressive ranches have been experimenting with improved breeds and intensively-managed pastures. If significant quantities of the potentially productive agricultural land now in cattle production are transferred to crop production, such technical intensification of beef production will have to be practiced on a wider scale to maintain production on the remaining pastures.

The Traditional Export Sector and the Target Group

Given the small-farmer and/or labor-intensive characteristics of coffee, sugar cane, and bananas, past and future growth in these export crops has been and will be good for our target group. It is estimated that the coffee harvest alone yielded ₡145 million in wages in 1975, most of which accrued to target group families, including some of the urban poor. 1/ However, further expansion in this sector will be limited. The area planted in coffee will not expand much, as the cost of establishing new plantations and the long-term price prospects make new plantings unattractive investments. With the sharp drop in world prices and weak long-term price prospects, sugar plantings will increase slowly, if at all. Banana production is highly dependent on world prices, with production decisions largely controlled by the two international firms. In short, the traditional export sector may continue to expand at a slow but steady rate, but will not provide the large number of jobs needed in the rural sector.

Beef production had a short-term positive effect on the target group in the production zones when land clearing and fence building providing a short-term employment boom. Small farmers were able to sell out for cash as the cattlemen accumulated land holdings. After the short-lived land and labor boom, the cattle raising areas became zones of out-migration and low employment.

Non-Traditional Agricultural Export Commodities

Among these are ornamentals plants, flower seeds, fresh frozen vegetables, frozen yuca, spices and food colorings, plantains, and wood products.

1/ Based upon information from the Oficina de Café.

Although at present they account for only a small fraction of agricultural exports, these products are precisely the areas in which Costa Rica must try hardest to stimulate production, for it is in these areas that labor-intensive, high-value, profitable small farm activities will be found.

Production for the Domestic Market

Basic Grains

Rice, corn, beans, and (recently) sorghum. It is on these four crops that the efforts of the GOCR's Basic Grains Program have focused. Largely due to high support prices, production and area planted have expanded in all four products. New planting areas have come from both converted cattle pastures and cleared new lands.

Rice

Grown in several areas on the Pacific side of the country, acreage and production have expanded rapidly under the stimulation of support prices 2 to 3 times 1970-71 levels. 1/ Most product comes from large-scale, technologically advanced farms, although several thousand small farmers have plantings under two hectares. The number of small farmers growing rice has increased in recent years, due to prices and special credit programs.

Corn and Beans

The traditional small farmer subsistence crops, grown generally on small plots with low levels of technology and correspondingly low yields. Production has been rising rapidly since support prices were raised, though it is uncertain what portion of the record 1975 bean harvest was produced in Costa Rica and what proportion was unregistered imports from other Central American Republics. The fixed higher prices have begun to attract large-scale producers, who now find it profitable to plant these traditionally small-farmer crops on a large scale with mechanization and modern technologies. 2/

1/ The support price paid in 1975 by the CNP for a 165 pound sack of dried rice grain (100 lbs. milled) in San José was ₡132, or $15.35 U.S.

2/ Average yields for corn and beans were 1,011 kgs/ha. and 413 kgs/ha. respectively in 1972. The 1975 support prices for corn and beans were ₡75 ($8.78 U.S.) and ₡225 ($26.35 U.S.) respectively for 100 pound sacks of dried, clean grain in San José. Sources: 1973 Agricultural Census, Consejo Nacional de Producción (CNP).

Sorghum

A relatively new crop, it appears most appropriate economically for large-scale grains (rice) producers. Used in limited quantities for human consumption, sorghum's greatest potential is in replacing some of the animal feed imports on which Costa Rica presently spends more than $10 million U.S. in foreign exchange.

Summary: Basic Grains

With fixed high prices, large areas of cleared, high quality land in cattle pastures, and capital readily available from subsidized credit and profits from beef cattle, it has been relatively easy for large-scale producers to move into mechanized grain production. If this persists in corn and bean production the marginal small-scale producers will be displaced from the market, as has historically occurred in most modernizing grains economies.

Horticultural Crops

Vegetables are grown for the national market by thousands of small-scale producers concentrated in and near the Meseta Central. Production technology is fairly high, and a wide variety of quality produce reaches the market. Prices and availability exhibit wide seasonal fluctuations depending on the product. Marketing efficiency and technology is very low, and will be discussed below as a major constraint to target group goals. Tree fruit production is scattered in backyards and in dispersed plantings all over the country. Very few plantings are large enough to be termed orchards, with technology in many cases no more than picking the ripe fruit. In the last few years some entre prenuers with access to capital, have planted macadamia cashew, citrus, and papaya with an eye to the long-term market.

As mentioned, fresh frozen export of fruits and vegetables has begun on a small scale in recent years. Packers are relying largely on grower contracts with progressive local farmers to supply their needs, and have long-term contracts with well-known U.S. firms for the products.

Meat and Dairy Products for the Domestic Market

Beef

Beef for the domestic market comes from the same production system as the export trade. A proportion is kept back by law for the domestic market; retail prices are fixed and carefully controlled.

Pork

Hog production is located with a large number of small-scale producers who are not able to meet domestic demand, resulting in several million dollars in pork imports annually. Technology is crude. 1/

Dairy Production

Milk is produced by several thousand small-and medium-scale producers. Two cooperative dairies have controlled the processed milk market, with their associated producers concentrated in and around the Meseta Central. Recently, a third dairy started operations and has begun to purchase milk, especially from producers outside the Meseta.

Production technology is high, leading one analyst to warn that over-emulation of temperate zone production technologies (especially in feeding concentrates) reduces profit margins. 2/ Though labor requirements are not as high as for horticultural crops, an even distribution of labor demand, expenses, and income flows over the year, and profitability at small scale, makes this an attractive target group activity.

Summary: Cropping and Land-Use Patterns

It appears that Costa Rica has a diversified mix of agricultural activities which, except for two notable cases, provide good income and employment opportunities for the rural poor.

These two cases are beef cattle and mechanized grain production, activities which use little labor for area planted and have displaced small farmers in certain zones. Though undeniable that more equitable distribution of such

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1/ 29,000 hogs were imported from Nicaragua in 1975. Source: FAS, U.S. Embassy, Costa Rica.

2/ AID-BID-IBRD 1976 Tripartite Report on the Costa Rican Agricultural Sector.

lands under labor-intensive cultivation would improve the local target group's situation, it is not true that these land-use patterns are the underlying constraints on target group goals. Land use and cropping patterns are responses to other factors; to economic signals such as prices, credit policies, and fiscal policies; to availability of markets, technology, institutional support, capital and labor; to appraisals of long-term risks and long-term investment opportunities; and to the quality and availability of physical resources and infrastructure. A change in land-use patterns towards smaller labor-intensive farms would certainly move us towards the sector goals. The only way to effect these changes, however, is to address the underlying constraints, i.e. the conditions from which the land-use patterns derive.

Public Institutions and Public Policy in the Agricultural Sector

Agricultural Sector Institutions

One analyst has counted over 150 official or semi-official organizations operating in Costa Rica's agricultural sector. Though slightly exaggerated, this figure does serve to highlight the institutional complexity of the sector. A current CARE/AID OPG project in soybean production and processing which is relatively simple, requires the cooperative efforts of ten distinct agencies.

AID's basic strategy in the agricultural sector in past years has been to develop the capabilities of selected sector institutions to service the needs of the small farmer and rural poor. Partly as a result of these efforts, Costa Rica can now count on a number of good public institutions with varying but considerable abilities in serving the target group. The three institutions most directly responsible for small farmer agricultural development are the Ministry of Agriculture (MAG), the Land and Colonization Institute (ITCO), and the Institute for Cooperative Development (INFOCOOP). They all suffer problems of: (a) lack of internal program coordination, (b) inter- and intra-institutional isolation of the planning function, (c) lack of professional administrators in program execution and mid-level administrative positions.

MAG - (Ministry of Agriculture)

In recent years, with AID assistance, the MAG has been able to improve its services to the target groups. Under Loan 022 the Ministry's operations were regionalized and agents were trained in techniques of group education and extension to small farmers. Under Loan 025, crop-specific "Projects-by-

Campaign" are being implemented in each region, with identified target group beneficiaries and participants. Through this experience the MAG is developing the capacity to work with groups of small farmers all over the country. A serious limiting factor faced by MAG personnel in this work is the lack of adequate technical information specifically adapted to small farmer needs, as most technological information available for transfer to small farmers is based upon large-scale production economies.

For the areas in which the Ministry works best (basic grains and livestock production) the technical recommendations from large-scale experience are in most cases scaled down to, but not structurally adapted to, the small farmers' situation. Given this limitation, some of the technological packages offered small-scale producers may be less profitable and/or more risk-prone than their traditional production methods.

An operational problem confronting the MAG is its status as a regular government ministry. Financial operations are governed by the inefficient and cumbersome Ley Financiera de la República, which severely limits the agility and innovativeness of its programming. One Tri-partite Study analyst identified this as a major constraint to improvement of public sector activities, for a concommitant effect of these restrictions on regular ministry operations has been the proliferation of semi-autonomous agencies who need not conform to the same financial procedures and therefore have greater freedom of action. With freedom, however, comes independence, uncoordinated activity, overlapping responsibilities and conflicting policies.

<u>INFOCOOP - (Institute for Cooperative Development)</u>

One of these semi-autonomous agencies is INFOCOOP, an institution responsible for developing, chartering, and supporting cooperatives of all stripes. Since 1971, INFOCOOP has received substantial assistance from AID, both in capital for re-lending to member cooperatives and technical assistance and training to strengthen the institutions' capabilities.

INFOCOOP's strengths lay in the areas of developing and chartering new cooperatives and performing economic feasibility studies on potential projects. Weaknesses are: (a) lack of personnel to train cooperative leaders in management procedures, specifically accounting and bookkeeping, (b) lack of personnel in technical production fields, agro-industry, administration, and cooperative organization, (c) need for more work in the development of cooperative federations and unions, and (d) development of managerial staff for those administrative levels.

A serious constraint on the cooperative movement and target group goals in general is the lack of a trained class of cooperative managers and extensionists at all levels. This class would range from young agricultural technical school graduates working with groups of up to fifty farmers, to general managers of regional cooperative federations servicing thousands of farmers.

ITCO - (The Institute for Land Tenure and Colonization)

ITCO was formed in the early 1960's as the agrarian reform agency, responsible for finding lands for qualifying groups of small farmers and settling those farmers. It is also responsible for land titling and registration. Formerly, due to ideological preferences of the ITCO staff, collective forms of economic organization were imposed on the ITCO settlements, forms which were generally resisted and found to be non-productive. Current policy is to allow farmers to choose both the form of settlement organization and the crop mix. ITCO then tries to provide technical assistance.

It is in the last area that ITCO is weak. Most of the settlements 1/ receive little agricultural TA, and those that do sometimes have cause to regret it. Technical assistance in this area for ITCO itself is currently being provided by the OIT, but with little evident improvement. In some quarters it is felt that ITCO should leave the organization and TA for settlement to farmer groups to the other agricultural sector institutions and concentrate on what it does best, which is land titling and settlement.

The National Production Council (CNP) and the National Banking System (SBN)

Though not as specifically oriented towards assisting the AID target groups as the MAG, INFOCOOP, and ITCO, these institutions and their policies are crucial to target group economic activity.

1/ As of May 1976, there were 42 ITOC-sponsored agricultural settlements, containing 3,896 families on 74,998 hectares.

CNP

A powerful and multifarious semi-autonomous institution, the CNP dominates the food-grains sub-sector of Costa Rican agriculture. It does this through its responsibility for fixing producers' support prices, its nationwide network of grains buying stations, authority over exports and imports, active participation in the seed and grains processing industry, and a nationwide chain of retail outlets. With this degree of control the CNP's policies and programs effect every producer and consumer of basic grains in Costa Rica. Specific effects on our rural sector target group will be discussed under the Policy analyses below.

SBN

Comprised of four banks nationalized in 1948, the SNB provides over 75 % of the production credit available to the small farmer target group. Operating independently as commercial banks, the four member institutions must comply with national regulations concerning interest rates and systems for allocating credit to various activities and between large-scale operators. Credit policy will be reviewed below, though at this point it bears mentioning that some commentators see the Banks as providing the best services to the target group of all sector institutions, and suggest the banks extend their responsibility and support and expand operations with small-scale producers.

The above discussion only touches on five of the many institutions participating in agricultural sector development. The remaining include educational institutions, a broad spectrum of public and private organizations with agriculturally-oriented projects, and the international agencies and bilateral development missions operating in the country. The above five, however, have the most direct responsibility for and/or effect on our target group's productive potential.

The National Agricultural Council (CAN)

A coordinating body which had primary counterpart implementation responsibility for USAID's Agricultural Sector loan, the CAN has been re-structured to provide planning and coordination leadership to the entire sector. The streamlined council holds regular monthly meetings, chaired by the Minister of Agriculture and attended by the President of the CNP, the Minister of the Presidency, the Minister of Economy, the Minister of Planning, and the head of the Central Bank. At these meetings , projects and questions presented to the members by the staff of the CAN's technical secretariat are reviewed and decisions taken. Based on these decisions the coordinated efforts of the participating institutions are directed towards the approved programs.

Integrated with the CAN secretariat is the Agricultural Sector Planning Office (OSPA), the agricultural arm of the Planning ministry (OFIPLAN). Together, the staffs will analyze the agricultural sector and formulate programs for CAN approval, work with the participating agencies on implementation plans, collect baseline data and evaluate progress. In short, they will provide coordinated planning and programming TA to the whole sector.

Policy Formulation in the Rural Sector

As befits a democracy, policy in the agricultural sector is usually made by consensus. The multitude of agencies and institutions which must act in concert to implement a given policy are independent and usually semi-autonomous. Neither the Minister of Agriculture, the Minister of Planning or any individual save the President can command their actions, and the President must contend with the coequal legislative and judicial powers as well as special interest groups. Even the coordinating role afforded to the CAN is based entirely on persuasion; it depends upon bringing the responsible individuals together in the same room and then getting them to voluntarily agree. In the case of the Basic Grains Program, general policy direction came down from the President who stressed it as the most important agricultural program in his administration. Even so, the designated manager of the project, the Minister of Planning, had to coax and cajole the policy-implementation, programming and coordination between the participating agencies.

That one individual or organization cannot command coordinated effort need not be a serious constraint on the effective implementation of policy and use of available institutional resources. But the lack of regular communication and coordination at the working levels within and between institutions results in resources wasted through duplication of efforts, through the dispersion of such resources instead of their concentration, and through the conflicting and contravening efforts of one institution's actions upon the efforts of another.

Price Policy

The most basic and powerful tool available to the GOCR to implement its production and consumer strategies, price policy is used at nearly all levels of the basic grains economy, and at the retail level for a range of other staple food items.

In the food economy, support prices to farmers are fixed by the CNP for rice, corn, beans and sorghum, while retail prices for these and the other items are fixed by the Ministry of Economy, Industry and Commerce (MEIC). Support prices are maintained by CNP buying stations who purchase all basic grains delivered to them, paying the official San José price, minus discounts for debris, moisture and transport. Retail prices are maintained by government inspectors and CNP retail stores (expendios) which sell a full range of consumer products in poor urban and rural areas.

The two principal objectives stated officially by the CNP for its basic grains price policy are: (a) to stabilize prices, and (b) to stimulate production. According to CNP planning officials, underlying both is the overall rural sector strategy of maintaining attractive production and employment activities in the rural areas and thereby discouraging rural-urban migration. It appears that the primary objective of the two is to stimulate production and achieve the self-sufficiency in basic grains production which all Central America governments deem essential. What price stabilization there is has been usually at prices higher than the world market.

The choice of which crops will be supported and the determination of actual support prices are made by the CNP Board of Directors, based upon recommendations from the planning department. These recommendations derive from cost-of-production estimates and are supposed to reflect a "fair" price to grains producers, based upon their costs. Unfortunately, there are few good current cost-of-production studies. But even if there were, setting support prices without concern for the world price, comparative advantage, and alternative uses of funds is ill-advised.

In real terms, the support prices for rice, corn, and beans were more than doubled between 1973 and 1975 Though at times these have been well over the world market, at this moment they are very close.

Price Policy and Target Groups

Undoubtedly the generous producer support prices offered by the GOCR, 1/ especially in corn and beans, have been economically beneficial to our target group. However, due to the mechanics of the price support procedure and the economic situation of small farmers, the small-scale basic grains producers only receive a fraction of the subsidy implied by the high support price. Most CNP grain buying stations are located, logically enough, in the zones of greatest

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1/ Current producer prices for rice, corn and beans are US$0.17/lb. US$0.09/lb. and US$0.27/lb. respectively. Consumer prices per pound are: rice US$0.21/lb., corn US$0.10/lb., and beans US$0.32/lb. World market prices, delivered to San José are rice US$0.22, corn US$0.09, and beans US$0.31 per pound. Source: Rural Development Office.

production, the large scale rice growing regions of the Pacific Coast. The small-scale grains producers in these areas must get their product to the buying station in order to receive the full benefit of the support prices. So must the large-scale producers and, during the concentrated harvest season, it is they who can command (and often own) the transportation services of the region to move their product from the farm, where it is concentrated in large volumes, to the buying station. Small producers, with their scattered small volumes of product, must purchase the temporarily scarce transport services on the open market. At these times the market price for transportations is naturally high, and the small farmers must pay it. In addition, the generally higher moisture and debris content of small farmer rice production receives an extra discount from the trucker, who must take into account that it will be discounted (often more severely than large producer's rice) at the buying station. It has been reported that in these cases the small farmer may receive no more than 75% of the support price.

For those scattered small-scale producers of corn and beans who live far from buying stations the situation is worse. In their case, the competitive support effect of the CAN's grain buying operations may be so distant as to have little effect. The only certain beneficiaries of the CNP's price policy and buying operations in recent years have been the large-scale rice producers, who can take full advantage of these policies and services.

Artificially high prices for corn and beans are also attracting large-scale producers to these traditionally small farmer activities. The long-term effect will be to accelerate the historically inevitable transformation of basic grains production from being predominantly an activity of traditional, small-scale, labor intensive producers to one of modern, large-scale, capital-intensive producers. It is ironic, but plausible, that a price policy intended to benefit the target group may actually hasten the displacement of small farmers from the basic grains sector.

But the transformation process will take some time; how long is difficult to determine, and there will always be some small farmers growing corn and beans. Though it appears that these crops will in the long run not be a significant source of new income or employment for the target groups, there exist in the short and medium term definite possibilities for reducing costs and raising net returns to small-scale basic grains production. These possibilities include intermediate technologies, genetic improvement, disease control, small-scale drying and storage, and cooperative marketing. It is entirely appropriate that

USAID resources focus in part on these opportunities, for they have direct income implications for our target group and will to some degree extend the time horizon for diversifying the agricultural sector and locating new production.

Credit Policy

General GOCR credit policy in recent years has been expansionist, and over the past five years agricultural credit has more than doubled while credit to small farmers has more than trebled. 1/ This expansion represents increased availability of funds from both national and external source. The increase in small farmer credit is the result of specific policies designed to increase the availability of SBN funds to the target group.

Interest rates are fixed depending on the category of borrower, (8% to small farmers) and given the rate of inflation in past years, subsidized to negative or near-negative real rates. Allocation of loans to different activities and different size farmers is made through a "tope" system of required percentages. For small farmers organized under some form of credit supervision and using formal credit and modern inputs for the first time, there is the Incentive Guaranty Program, begun under AID Agricultural Sector loan 022, which protects the lending institutions against default and insures the farmer from debt due to unavoidable natural catastrophe.

Credit Policy and the Target Group

The net effect of these policies has been to introduce more small-farmers to the use of formal agricultural credit. It appears, however, that even more small farmers would be receiving credit were it not for the discouraging effect of some GOCR policies. In particular, the subsidized interest rates (with small farmers paying from 2% to 4% less than other farmers) change loan selection criteria from relative productivity of investment to relative risk. Individual bank managers progress through their career system depending on the soundness of their portfolio decisions and therefore have strong disincentives to extend any more loans to small farmers than required. If small farmer interest rates

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1/ Total agricultural credit in 1975 was C1,816,709,918 distributed among 53,221 loans. Small farmers as a group received 42,016 loans totaling C352,840,920 for an average small-farm loan size of just under US $1,000.

accurately reflected the costs and risks involved, bank officials would make more small farmer loans.

A related factor constraining expansion of small farmer credit is the lack of sufficient credit supervisors for the farmer groups. The banks do not have adequate staff to handle the large number of clients involved, and couldn't cover a staff expansion out of low existing interest earning. Several Peace Corps volunteers are now assigned to the Banco Nacional de Costa Rica to supervise farmers borrowing under the Incentive Guaranty Program.

Marketing Structure and Policy

In this broad area known collectively as "marketing" lie some of the most serious constraints to attainment of target group goals.

Responsibility for agricultural marketing policy is dispersed among several institutions, with little or no inter-institutional coordination. PIMA, the official agricultural marketing board, has proved to be an ineffective coordinating or policy making institution and currently concentrates its efforts almost entirely on promoting a new central wholesale market.

For the traditional export crops, marketing systems are controlled by the export federations and operate efficiently to distribute economic returns to producers, handlers, processors, exporters, etc. Key elements in the success of these systems are that they include carefully defined and agreed upon grades and standards and achieve effective vertical integration.

In basic grains the market is dominated by the CNP, which with its buying operations, processing facilities, control over exports and imports, and retail stores controls the market almost completely. However, as noted above, the CNP's market control over producer prices does not necessarily extend to the small farmer, who, because of his location and economic situation, often received far less than the support price. In fresh fruits and vegetables the marketing system is characterized as being inefficient and a serious constraint on increasing producer incomes. As is the case in most developing countries, produce is handled at several levels, starting generally with pick-up at the farm by commercial truckers. Goods are then passed through as many as six stages before reaching the consumer. At each stage methods of handling are generally primitive, little sorting or grading is practiced, losses and damage due to spoilage are high and very limited information is available to the market participants.

Though this is true for all Central American Republics, it must be noted that this system is singularly unable to efficiently handle new products, or traditional products coming from new production areas, and therefore acts to discourage attempts at such production.

This last element is crucial to our analysis. If new, high-value products are the means towards attaining the target group goals, the system must be able to handle such products, be they for the domestic or export market. New marketing arrangements and structures must be devised simultaneously with the introduction of new production activities, to be in place when the new products are ready for harvest.

Land Tenure, Land Use, Land Availability

Costa Rica is still largely a rural economy: according to the 1973 census 59.39% of the population is rural. The 3,122,454 hectares of farm land are divided into 76,998 units. A high degree of land concentration is demonstrated by the fact that 45.74% of the farms represent only 1.85% of the land area and have less than five hectares each. On the other hand, farms of over 100 hectares represent 7.3% of total farms but cover 66.98% of the total farm area. It is noteworthy that a substantial medium-sized farmer group has emerged whose farms of 10 to 200 hectares represent 34.86% of the units and covers 41.55% of the farm area.

The majority of the farms in Costa Rica are owner operated, and comparisons of the 1963 and 1973 census data reveal that:

(1) The area in farms has grown by 454.380 hectares and the number of farms has increased by 12,377.

(2) The majority of the new farms are less than 1 hectare. The number of these small farms has grown by 10,752.

(3) Land concentration has increased somewhat in farms from 200 to 1,000 hectares. At the same time, land area in 1 to 20 hectares has decreased.

Land use patterns have changed rather drastically since 1955 when agriculture was utilizing 26% of the total land area as compared to 1973 when 40% of the land area was in use. Between 1955 and 1973 the addition of 1,285,106 hectares to the agricultural land base showed an increase of only .4% in cultivated crops and 4% in permanent crops in comparison with a 51% increase in pastures and 44% in uncultivated lands. In 1973, 76% of the area in production (not including uncultivated lands) was in pasture, compared with 10% in permanent crops and 14% in cultivated crops.

These changes have had significant effects upon the rural economy. Although the area in production has expanded greatly, agricultural employment has increased more slowly. Between 1927 and 1950, the agriculture sector generated 2,040 new jobs per year (while population increased from 471,524 to 800,875) and between 1950 and 1963, it generated 3,500 new jobs per year (while population increased to 1,336,274). However, between 1963 and 1973, it generated only 1,890 new jobs per year (while population increased to 1,871,780). Consequently, the percentage of rural population employed in agriculture dropped from 61.8% of the labor force in 1927 to 36.4% in 1973. Excess labor has either migrated to the cities, colonized, or remained as unemployed or underemployed members of the rural labor force.

There exist in Costa Rica sufficient quantities of unused or under-used land suitable for intensive agricultural production to meet the land requirements for the target group in the medium, though not the long term. In certain densely populated areas of the Meseta Central and the fertile inter-mont valleys there are localized shortages, while in the large-scale cattle and field crop production areas the economics of these activities vis-a-vis others has resulted in a concentration of land in extensive holdings and the consequent reduction in the number of small farmers. Though the frontier of new lands available for agriculture has been or will shortly be reached, the possibilities for intensification are such that land availability should not be considered a major limiting factor to either overall or target group goals, except in the longer term.

Physical Resources

Soils. Costa Rica was blessed with superb agricultural soil in some parts of the country, and in many areas has soils of low fertility but good structure and mechanical properties, which respond well to fertilization and good management. However, indiscriminate deforestation and poor agronomic practices have already seriously depleted soils in some regions and are endangering others. At this moment soils do not pose a serious constraint on the agricultural sector, but if the trends are not reversed it will become one in the foreseeable future. Given their location, economic situation, and cultivation practices, small farmers are more endangered by the erosion process than large farmers.

Water. The long dry season in many parts of the country places a constraint on agricultural development, and this condition has been exascerbated by the same practices that are depleting the topsoil. In some areas, ground water sources which ran year-round are now seasonally dry, as the water-retaining forest cover in the up-stream water sheds has been stripped. These streams could conceivably be used for small-scale irrigation of the fertile bottom lands along their banks. A large-scale irrigation project planned for Guanacaste, will add forty-thousand irrigated hectares in the next 25 years.

Physical Infrastructure

Roads. Lack of year-round access, or high transportation costs engendered by poor roads, seriously limits the economic returns to agriculture in significant areas of the country. Although the constraint is general, it affects AID's target group more because of their limited ability to find alternate means of transportation and their inherent disadvantage and higher costs when dealing with suppliers of marketing and transportation services.

AID loans to the Municipal Development Institute (IFAM) have been directed in part towards the construction of agricultural access roads, as are a number of current and future projects financed by the IBRD and BID.

Electricity. Rural electrification is lacking in many areas of the country, although GOCR programs with BID and CABEI will address this problem over the next decade 1/. This lack constraints agriculture insofar as it limits the development of on or near-farm processing and storage and the development of agro-industries in the rural areas. Again the target group is probably at a greater disadvantage than others because of their small size and lack of capital to provide alternate sources of energy for their operations.

Storage and Handling. The lack of adequate grain storage and handling facilities is a serious constraint on continued development of the basic grains sub-sector. The National Production Council (CNP) has not been able to handle

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1/ Less than 40% of the national area receives electricity. ICE's (The Institute of Communication and Electricity) goal for 1980 is 60% of the national area. Source: Oficina de Estudios Económicos, ICE.

the record quantities of rice it has been buying under the price support law. All available storage facilities in the country were filled with last year's rice crop, restricting the CNP from including new crops in its price support program because storage was not available. The losses sustained on last year's rice crop because of inadequate drying and storage must be absorbed by the agricultural sector and the food consumer.

The lack of storage facilities on or near small farms limits the economic returns small-scale producers can realize from their basic grain production, as it is one of the factors which force the small-scale producer to sell just after harvest.

Summary: Analysis of Target Group Situation

The dynamics of a modernizing agricultural sector work against the long-term profitability of basic grains production for small farmers. Just when increasing income and employment opportunities are needed to absorb the expanding rural work force, this important basic grains sector will become less small-farmer oriented and less labor intensive. Similarly, the traditional export sector cannot be expected to expand employment generation sufficiently to meet the demand for rural jobs. The solution for both the small-farmer and rural worker target groups is a shift to non-traditional, high-value, labor-intensive production activities with definite commercial and/or agro-industrial potential. Such products and activities include fruits and vegetables, tree crops, spices, intensive dairying, labor intensive fiber crops, small animal production, tree farming, etc.

It is perhaps disconcerting to find that the long-term solution to target group problems is not the neat and relatively simple system that many planners had imagined; a solution in which the transfer of technology and its application to traditional grain crops provides increasing incomes, small-scale profitability, and employment generation. On the contrary, it may be the case that it is this modernization of traditional activities which accentuates the problem. Rather than technified basic grains production as a unitary solution to target group needs, the solution for Costa Rica at this stage in its development may be a fragmented, heterogeneous mix of dozens of different products, individually risky, but as a group the only secure long-term solution. Each activity may provide income and/or employment for several hundred farmers and workers, with no one product or type of product being the answer for all, and no single product expected to provide consistent profits indefinitely.

The constraints to achieving such a solution (or solutions) are as much off the farm as one. The proper strategy is a diversified approach to land-use planning, from the farm up to the national level, and an integrated, vertical marketing/production approach applied to each production activity. This type of approach to small-farmer and rural employment problems will require new initiatives on the part of sector institutions and international agencies such as AID.

POPULATION

I. Demographic Perspective

During the past 15 years there has been a dramatic reduction in Costa Rica's birth rates: i.e., the Crude Birth Rate 1/ (CBR) has dropped from 47.5 in 1960 to 28.3 in 1973 and the over-all fertility rate 1/ from 7.2 in 1960 to 3.9 in 1973. This success, however, does not imply that Costa Rica has solved its problem of rapid population growth. The 1973 fertility rate (3.9) is nearly twice what is required for stabilization of the population. Furthermore, even if the Net Reproduction Rate (NRR) were to reach the "replacement level," the population would double before stabilizing. Thus, even if Costa Rica were to attain an NRR of 1.0 by 1985, the total population would still reach 3 million by the year 2000 and would not stabilize at 3.8 million until the year 2030.

The Population Council has developed five population projections for Costa Rica, each different depending upon various assumptions concerning when the net reproduction rate will equal the replacement rate of 1.0. These projections assume a constant mortality rate and that once the NRR reaches unity it will remain at one. The complete projections are attached as Annex 2. However, in summary, we can see that if the NRR were to fall to 1.0 between 1980-85, the population in 2030 would be 3.8 million; if it fell to unity between 2000-2005, the 2030 population would be 5.2 million; and if it fell to unity between 2020-2025, the 2030 population would be 6.8 million.

The age structure of the population is also important in projecting future growth rates: e.g., an increasing number of women of reproductive age leads to an increased number of births. Professor Marcos Bogan has projected that the number of women between 15 and 49 years of age will increase by more than 100,000 during the next five years. Therefore, it is unlikely that gradual changes in fertility will be perceptible in terms of overall Crude Birth Rates or Net Reproduction Rates during the next 20 years. The over-all rates will change only if there are dramatic reductions in fertility rates.

1/ NOTE: The CBR is defined as the annual number of live births per 1,000 persons and the fertility rate as the average number of living children that a woman would have during her potential child-bearing years.

II. National Population Policy

Private concern over Costa Rica's rapid population growth began during the 1960's. The first organized family planning activities began in 1962 when Clínica Bíblica, a private hospital in San José, began to distribute contraceptives and when Goodwill Caravans, a private Protestant group, began to provide medical care and community education in the rural areas.

By 1966, the GOCR also became concerned about the problems associated with rapid population growth. The Costa Rican Demographic Association (CRDA), an affiliate of the International Planned Parenthood Federation (IPPF), was established to develop an awareness of population problems and to encourage public support of family planning programs. In 1967, a family planning policy was formulated by the Office of the Presidency and an Office of Population created within the Ministry of Health. Family planning services were initiated in nine health clinics in 1968. Also, in 1968, the National Family Planning Committee (CONAPO), composed of several interested government and private organizations, was organized to provide a forum for the exchange of population/family planning information.

The Ministry of Health has integrated family planning services with basic health services and the Social Security Institute (CSS) began to provide family planning services in its larger hospitals and dispensaries in 1970. In 1970, the Ministry of Education also created the General Supervisory Office for Sex Education and initiated a sex education program in the secondary schools. The Center of Family Orientation (COF) and the Center of Family Integration (CIF) have also begun to play major roles in sex education and responsible parenthood by providing courses to pre-marital couples, marital couples, and school teachers.

But, in spite of its successful family planning and sex education programs, the country still lacks a comprehensive population policy which links demographic factors to over-all development planning and management. CONAPO coordinates the activities of the various organizations involved with population programs, but there is no government body which looks at population and demographic factors as they relate to the country's social, economic, and political policies. The GOCR needs to develop a population policy which relates the principles, objectives, and implementation of various public sector programs dealing with family planning, internal and external migration, health, employment, income distribution, etc.

A strong comprehensive population policy in Costa Rica would need to evolve out of a Presidential decree or law. This might be in the form of a public institution -- e.g., Dirección Nacional de Población -- which would be responsible for recommending policy and for sponsoring and analyzing such studies as the following: relations between demography and economic change; relations between health and nutrition and family planning; and population distribution and migration.

III. Family Planning and Sex Education Programs

As outlined above, Costa Rica's family planning and sex education programs are implemented by a number of separate organizations: The Ministry of Health, the Ministry of Education, the Social Security Institute (CCSS), the Center of Family Integration (CIF), the Center of Family Orientation (COF), the Costa Rican Demographic Association (CRDA), and the University of Costa Rica.

The Ministry of Health currently has 90 hospital health centers and 150 rural health posts providing family planning services. During 1975, the MOH handled 127,000 family planning visits or more than half of all FP consultations in the country. The CCSS health facilities provided FP services to the second largest group of people -- nearly 40 percent of total consultations. Under existing law, the CCSS will eventually take over all MOH hospitals, with the Ministry determining policy and the CCSS providing services. The CCSS is beginning to assume the responsibility for all clinical health services of the MOH in urban areas. By 1979, the CCSS will be responsible for all FP services in the urban areas, with the MOH having major responsibility in rural areas. The CCSS has also been primarily responsible for training nurses as Women's Health Care Specialists who are now delivering family planning planning services in major health centers. This training program for auxiliary medical personnel is one of the first in Latin America and has been instrumental in showing that added professional responsibilities can be given to graduate and auxiliary nurses. By December 1976, a total of [illegible] graduate nurses will have been trained as Women's Health Care Specialists. By 1979, approximately 180 auxiliary nurses will be trained and assigned to rural areas. The auxiliary nurses will visit homes and talk to women, both to motivate their interest in family planning and to recommend various contraceptive techniques.

The COF is a non-religious private organization which organizes courses and special programs on sex education and family planning. Working more closely with the MOH, COF will be concentrating its efforts on family planning courses, radio broadcast, and special family planning/sex education courses for workers in large industrial or agricultural firms.

The CIF is a Catholic organization sponsored by the Christian Family Movement. During 1975, CIF offered 175 courses of 15 sessions each for over 29,000 couples, marital and pre-marital. The Catholic Church of Costa Rica now requires each couple planning to marry to attend such a course which discusses all family planning methods. In its courses, CIF emphasizes natural methods of contraception, but it does refer people to the MOH and CCSS for other contraceptive information.

In its early years, the CRDA devoted much of its attention to promotional work -- i.e., to create an awareness of population problems. At present, its major roles are the distribution of contraceptives and the development and dissemination of communication materials in support of the national program. In addition, CRDA assits in the administration of a UNFPA grant to Costa Rica.

Estimates based on data from SIDESCO show that, as of December 31, 1975, approximately 75,000 or 22 percent of all women of fertile age were being provided contraceptive protection through the above organizations. In addition, there are an estimated 20-35 percent of women provided with contraceptive methods through the private sector. There are, however, serious reporting problems in the over-all program. There are no good data on numbers of acceptors; on women who abandon the program; on numbers of acceptors using different methods of contraception; on changes in methods; nor on the rural-urban breakdown of acceptors.

Available data for 1973 show that some 30 percent of all births were to women less than 20 or more than 34 years of age, ages at which the risk to mother and child are greatest. Data also show that 27 percent of all births in 1973 were to women with more than 5 children and that the "typical" users of the program are married women between 20 to 29 years of age with 2 or 3 children. Greater efforts must be made to reach these two groups of women -- i.e., those of "high-risk" age who are bearing children and those who already have more than 5 children.

Although COF and CIF have developed a number of innovative motivation and communication programs and have recognized the need to train additional workers, these workers have not always been given adequate back-up support. An additional problem for the entire family planning program has been inadequate coordination between institutions within the umbrella organization CONAPO.

IV. Role of AID

USAID has contributed to Costa Rica's population programs since 1965. The history of AID's support to the family planning programs in Costa Rica can be divided into three different phases. The goal of the first phase was to develop an awareness of population problems and to encourage public support of family planning programs. In a second phase USAID provided funds to enable the MOH and CCSS to provide family planning services in all the major health centers and hospitals in urban areas of the country. The financial assistance of AID also enabled the Costa Rican Demographic Association (CRDA), the Center for Family Orientation (COF) and the Center for Family Integration (CIF) to carry out the educational components of the program. The third phase, which we are entering now, consists of a concerted effort to use all appropriate means to achieve, as soon as possible, low-cost integrated country-wide rural coverage of family planning services.

The counterpart organizations presently being assisted with Title X funds (CRDA, CCSS, COF, CIF and MOH) clearly understand AID's intent to focus on the rural areas. The experience with these organizations has been highly satisfactory and the results have been excellent. The GOCR has been one of the leaders in promoting the use of auxiliary personnel to deliver health services in rural areas. Appropriate steps have been taken to alleviate the demographic situation, striving at the same time to improve health and nutrition for the general population.

The USAID Mission to Costa Rica recently presented a Project Paper intended to extend the program for at least another three years. The project will utilize the most advanced methods in family planning technology. Major efforts will be made to reach the urban marginal and rural poor with family planning services through para-medical and non-medical personnel. Over half of AID's inputs will be used for training. To reach 35 percent of fertile age women by the end of CY'79 as continued acceptors, USAID will assist the MOH, CRDA, COF, CIF and CCSS to implement training programs, increased distribution of contraceptives, and extend educational programs to rural areas with technical expertise.

USAID does not anticipate continued project assistance following completion of the new Family Planning Services Project in 1979. However, there will be need for limited *ad hoc* technical assistance in such areas as data collection and processing and in implementing a population policy. If the GOCR develops a new mechanism to integrate population policy with the country's overall social and economic development programs, USAID may be called upon to provide additional technical assistance and financing for cross-sectoral studies relating population growth to the overall economy. This assistance will, however, be provided through special research funds and not through a large-scale bi-lateral AID project.

PART IV
STATISTICAL ANNEXES

VII. Health Indicators

A. 1. Average Annual Mortality Rates per 1,000, 1952-1973
   2. Infant Mortality Rates, by Region, 1969-73
   3. Crude Birth Rates, by Region 1970-1973

SUMMARY OF BASIC SOCIO-ECONOMIC INDICATORS

ANNEX I.

	1950	1960	[illegible]	1975
I. PRODUCTION				
GDP (current prices)	₵1,[illegible] mil.	[illegible]	[illegible] mil.	₵16,[illegible] mil.
GDP per capita	₵1,[illegible]	₵2,[illegible]	[illegible]	₵ 8,[illegible]
Real GDP (at constant prices)		n.a.	[illegible] mil.	₵ [illegible],5[illegible] mil.
Avg. Annual Growth Rate Real GDP			--6.6%--	

II. STRUCTURAL TRANSFORMATION
(Sector Contribution % of GDP at constant prices)

	1963	[illegible]
Agriculture	25.8	[illegible]
Mines/[illegible]	17.0	[illegible]
Construction	5.6	[illegible]
Basic Services 1/	5.7	[illegible]
Commerce	14.5	[illegible]
Other Services (including gov't)	31.[illegible]	[illegible]

III. INCOME DISTRIBUTION

Percent of family income (% of total)

	1963	1973
Lowest 20%	5.0	[illegible].4
Next 40%	34.0	[illegible]
Next 10%	14.0	[illegible]
Highest 30%	46.0	[illegible]

IV. BALANCE OF PAYMENTS

	1950	1960	[illegible]	1975
Exports	$55.6 mil.	$ 84.[illegible] mil.	$[illegible] mil.	$487.6 mil.
Imports	$46.0 mil.	$110.4 mil.	$[illegible] mil.	$699.8 mil.
Trade Balance	$ 9.6 mil.	-$26.1 mil.	[illegible] mil.	-$212.2 mil.
Avg. Annual Growth Exports	--4.[illegible]%--	--[illegible]		--16.1%--
Avg. Annual Growth Imports	---9.2%---	---12.[illegible]		--17.2%--
Net Int'l Reserves (12/31)	$6 mil.	$16 mil.	$[illegible] mil.	$52 mil.
Disb. Debt Outstanding (12/31)			$[illegible]1.6 mil.	$476.7 mil.
Debt Service Payments			$[illegible].6 mil.	$73.0 mil.
Debt Service/Exports			[illegible]1.9%	14.9%

V. POPULATION EMPLOYMENT

	1950	1963	1973	July 1975
Population (000)	800	1,[illegible]	1,[illegible]87	1,968
Rate of Increase	---3.8%---	---3.[illegible]		-- 2.2%---
Urban Population		34.4%	[illegible]	n.a.
Rural Population		65.[illegible]	[illegible]	n.a.
Labor Force	29[illegible],000	40[illegible],000	[illegible],000	n.a.
Employed	280,000	379,000	54[illegible],000	n.a.
Unemployment Rate	4.1%	7.1%	[illegible]	n.a.

Employment by Sector

	1963	1973	July 1975
Agriculture	49.8%	3[illegible].2%	n.a.
Industry, Mining	11.[illegible]	[illegible]	n.a.
Construction	[illegible].5	[illegible]	n.a.
Basic Services	4.7	5.5	n.a.
Commerce	9.[illegible]	14.[illegible]	n.a.
Services	18.5	21.5	

VI. SOCIAL INDICATORS

Housing (% of total)	1963	1973	
Piped Water	6[illegible].3%	78.2%	
Sanitation Facilities	66.0%	81.2%	
Electricity	54.5%	[illegible]6.3%	
Rooms	54.[illegible]%	[illegible]7.0%	
Proportion of 6-12 age group in Primary School	84.1%	[illegible].0%	
Literacy Rate		[illegible]	
No. of [illegible] per 10,000 people	4.6[illegible]	[illegible]	
Infant Mortality [illegible] per 1,000	6[illegible]	[illegible]	
Life Expectancy	6[illegible]	[illegible]	
Coverage of Social Security Insurance	1960	1970	1973
Sickness and Maternity	15[illegible]	[illegible]	5[illegible]%
Old Age/Death	7[illegible]	[illegible]	42%

1/ Electricity, [illegible], water, communications and transportation

ANNEX II.A.

GROSS DOMESTIC PRODUCT, BY SECTOR OF ORIGIN
(Millions of Colones, Market Prices)

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
Agriculture	852.8	886.5	924.0	994.1	1,065.6	1,178.4	1,302.9	1,469.3	1,443.4	1,601.6	1,962.9	2,522.4	3,283.2
Industry/Mfg. & Mining	512.2	578.2	659.4	730.9	781.2	897.3	1,004.5	1,192.2	1,325.0	1,507.1	1,903.3	2,677.9	3,207.2
Construction	171.8	155.9	185.4	184.9	204.3	228.1	245.6	277.4	343.3	423.8	507.1	654.9	833.2
Basic Services 1/	186.7	207.9	227.5	244.1	263.2	291.6	341.8	384.0	443.8	509.9	595.5	796.6	1,064.7
Commerce	696.4	735.3	793.3	879.4	918.2	1,011.0	1,116.3	1,371.3	1,502.0	1,651.3	2,054.5	2,754.7	3,252.5
Banking & Insurance	129.5	129.8	153.3	165.9	187.2	204.4	236.9	302.7	321.0	404.5	[illegible]	[illegible]	832.0
Dwellings	357.8	360.8	373.1	391.7	425.8	444.0	467.6	498.7	524.9	553.4	626.5	764.8	987.2
General Government	322.3	343.5	382.9	454.8	498.1	541.9	614.5	693.2	813.6	998.0	1,196.6	1,576.4	2,141.9
Other	194.7	210.3	229.6	242.6	255.4	273.1	302.6	335.7	375.2	420.1	495.9	626.7	809.8
(Adjustments)	-	-	-	-	29.9	46.9	19.6	-	44.8	146.1	311.2	148.3	[illegible]
TOTAL	3,404.2	3,608.2	3,928.5	4,188.4	4,633.9	5,126.7	[illegible]	6,524.5	7,136.0	8,215.8	10,162.4	13,178.0	16,507.2
Real GDP (1966 prices)	-	-	-	4,288.4	4,529.7	4,915.3	5,183.6	5,571.7	5,952.5	6,438.7	6,932.1	7,307.2	7,555.5
Per Cent Increase	-	-	-	-	5.6%	8.5%	5.4%	7.0%	6.8%	8.2%	7.7%	5.4%	3.4%

1/ Electricity, Gas, Water, Transport, and Communication.
Source: Central Bank of Costa Rica.

ANNEX II. B.

STRUCTURE OF CAPITAL FORMATION
(Millions of Colones)

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975 1/
I. Gross Fixed Capital Formation	620.8	590.9	729.6	735.9	834.0	882.1	1,023.5	1,269.8	1,578.5	1,800.2	2,251.6	3,084.7	3,741.0
A. Private Sector	489.0	434.9	501.5	527.0	660.0	699.9	775.6	950.2	1,170.3	1,237.8	1,615.6	2,211.3	n.a.
1. Construction	266.3	194.7	306.7	301.8	299.3	355.0	326.1	408.6	449.8	385.1	502.0	727.9	n.a.
2. Machinery & Equipment	222.7	240.2	194.8	225.2	360.7	344.5	[illegible]	571.6	720.5	852.7	1,113.6	1,483.4	n.a.
B. Public Enterprises	58.8	76.3	134.0	79.7	63.8	63.5	90.4	138.2	178.0	237.4	290.8	386.3	n.a.
1. Construction	51.6	69.1	126.1	68.0	56.1	56.4	79.9	105.8	144.1	208.4	238.1	354.8	n.a.
2. Machinery & Equipment	7.2	7.2	7.9	11.1	7.7	7.1	10.5	32.4	33.9	29.0	52.7	31.5	n.a.
C. General Government	73.0	79.7	94.1	129.2	110.2	118.7	131.5	151.4	230.2	325.0	345.2	487.1	n.a.
1. Construction	56.3	62.5	79.3	118.1	99.8	103.2	130.7	122.8	160.1	221.9	274.0	390.3	n.a.
2. Machinery & Equipment	16.7	17.2	14.8	11.1	10.4	15.5	0.8	28.1	70.1	103.1	71.2	96.8	n.a.
II. Changes in Inventories	19.0	-13.8	36.6	[illegible]	[illegible]	42.1	[illegible]	[illegible]	[illegible]	9.5	[illegible]	[illegible]	[illegible]
TOTAL GROSS CAPITAL FORMATION	639.8	577.1	766.2	917.3	897.0	924.2	1,132.7	1,339.9	1,736.9	1,809.7	2,435.3	3,443.1	3,707.8

1/ Preliminary.
Source: Central Bank of Costa Rica.

ANNEX II.C.

FINANCING OF GROSS CAPITAL FORMATION
(Millions of Colones and Percentages)

	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
GROSS INVESTMENT	639.8	577.1	766.2	[illegible]	897.0	924.2	1,152.7	1,339.9	1,736.9	1,809.7	2,438.3	3,443.6	3,707.8
Financed by:													
Domestic Resources	467.5	423.2	320.4	[illegible]	547.8	601.5	752.9	833.7	935.3	1,060.1	1,585.0	1,238.7	1,846.8
Net Domestic Savings	262.1	204.4	[illegible]	266.8	263.3	277.5	399.4	418.2	465.6	556.5	1,017.9	544.5	1,008.0
Depreciation	205.4	218.8	[illegible]	255.8	284.5	324.0	353.5	415.5	449.7	503.6	567.1	694.2	838.8
Foreign Capital & Change in International Reserves	172.3	[illegible]	[illegible]	291.7	340.3	322.7	379.8	506.2	801.6	749.6	853.3	2,204.9	1,861.0
Domestic Capital as % of Total Investment	73.1%	73.3%	41.8%	63.9%	61.0%	65.1%	66.5%	62.2%	53.8%	58.6%	65.0%	36.0%	49.8%

Source: Central Bank of Costa Rica.

MID-YEAR POPULATION TOTALS

Year	Population	Year	Population
1950	866,008	1964	1,445,862
1951	906,317	1965	1,494,657
1952	939,243	1966	1,543,172
1953	969,926	1967	1,591,478
1954	1,001,490	1968	1,639,720
1955	1,035,604	1969	1,688,095
1956	1,072,949	1970	1,736,831
1957	1,115,534	1971	1,786,166
1958	1,156,988	1972	1,836,334
1959	1,202,739	1973	1,887,548
1960	1,250,154	1974	1,921,572
1961	1,298,626	1975	1,968,438
1962	1,347,644	1976 (Jan.)	1,993,784
1963	1,396,811		

Source: University of Costa Rica.

POPULATION [illegible]
(Millions [illegible])

Year	Period [illegible] 1970-1975 Projection 1	[illegible] Projection 2	[illegible]	[illegible] Projection 4	[illegible]
1970	1.7 100	1.7 [illegible]	1.7 [illegible]	1.7 [illegible]	1.7 [illegible]
1975	1.[illegible] 105	2.[illegible] 114	2.[illegible] 11[illegible]	2.[illegible] 117	[illegible] [illegible]
1980	2.0 11[illegible]	[illegible].2 126	[illegible] 13[illegible]	2.4 137	2.4 [illegible]
1985	2.1 [illegible]	[illegible].4 13[illegible]	[illegible].7 1[illegible]5	[illegible] [illegible]	[illegible] [illegible]
1990	2.[illegible] [illegible]	[illegible] 14[illegible]	[illegible].1 17[illegible]	3.[illegible] 1[illegible]6	[illegible] [illegible]
1995	[illegible] 11[illegible]	[illegible].7 [illegible]	[illegible].4 1[illegible]	[illegible].7 212	3.[illegible] 22[illegible]
2000	2.[illegible] 1[illegible]1	2.[illegible] 169	[illegible].7 21[illegible]	4.[illegible] 240	4.4 [illegible]
2010	2.9 1[illegible]5	3.[illegible] 18[illegible]	4.[illegible] 24[illegible]	5.2 297	[illegible].7 [illegible]7
2020	3.1 1.7	3.6 205	[illegible] [illegible]	6.[illegible] 3[illegible]	7.1 4[illegible]
2030	3.[illegible] 1[illegible]4	3.[illegible] 216	5.[illegible] [illegible]	6.[illegible] 3[illegible]3	[illegible] 4[illegible]
2040	3.[illegible] 1[illegible]	3.9 221	5.[illegible] [illegible]	7.5 43[illegible]	[illegible] 5[illegible]4
2050	3.3 1[illegible]	3.9 225	5.7 [illegible]	[illegible].1 464	1[illegible] 6[illegible]
2075	3.3 1[illegible]	3.9 226	5.[illegible] 33[illegible]	8.7 5[illegible]1	12.7 7[illegible]1
2100	3.3 1[illegible]	3.9 22[illegible]	[illegible] 3[illegible]	[illegible] 507	13.3 76[illegible]
2125	3.3 1[illegible]	3.9 226	5.[illegible] 338	[illegible] 50[illegible]	13.4 772
2150	3.3 189	3.9 226	5.[illegible] 337	[illegible] 508	13.4 772

1/ Based on differing assumptions of when the Net Reproduction Rate equals unity.
Source: Population Council.

SECTORAL DISTRIBUTION OF EMPLOYMENT
(000's and Percentages)

	1963		1973		1963–73
	Number	%	Number	%	Annual Growth Rate
Agriculture	190	49.8	207	38.2	0.9%
Industry & Mines	45	11.8	70	[illegible]	4.5%
Construction	21	5.5	37	[illegible]	5.1%
Basic Services 1/	18	4.7	30	[illegible]	5.2%
Banking/Comm.	38	9.9	80	[illegible]	7.7%
Other Services	70	18.3	118	[illegible]	5.3%
	382	100.0	542	100.0	3.5%

EMPLOYMENT STATUS, 1[illegible]
(000's)

Provinces	Pop. Greater Than 12 Years	Econ. Active Pop.	Employed	Unempl. Rate
COSTA RICA	1,210	585	542	7.3%
San José	470	229	214	6.5%
Alajuela	208	97	89	7.8%
Cartago	129	62	57	8.2%
Heredia	90	44	40	8.9%
Guanacaste	108	50	46	8.2%
Puntarenas	133	65	60	7.1%
Limón	72	38	35	8.0%

1/ Electricity, gas, water, communications, and transport.
Sources: 1963 and 1973 Population Censuses.

INCOME DISTRIBUTION PROFILE, 1961 AND 1971

	% of Family Income		Avg. Monthly	Ratio of Avg. Income
	1961	1971	Family Income	to Nat'l Avg. (1971)
Lowest 20%	6.0%	5.4%	₡ 316	27%
Second 20%	7.8%	9.3%	₡ 546	47%
Third 20%	9.8%	13.7%	₡ 806	70%
Fourth 20%	16.4%	21.0%	₡1,232	105%
Top 20%	60.0%	50.6%	₡3,000	255%
Top 10%	44.0%	34.4%	₡4,104	349%
Top 5%	35.0%	22.8%	₡5,376	458%
Top 1%	16.0%	8.5%	₡9,897	842%

Source: Costa Rica, The Distribution of Income and Consumption of Food, Víctor Hugo Céspedes and 1974 IBRD Report.

COSTA RICA: DISTRIBUTION OF FAMILY INCOME

According to: All Sources of Income
By: Zones and Deciles

Percentage of Families	Percentage of Income			
	Country	A. Metrop.	Urban 1/	Rural
Lowest 10%	2.1	[illegible]	2.3	2.8
Second 10%	3.3	[illegible]	3.9	4.1
Third 10%	4.2	[illegible]	4.8	5.1
Fourth 10%	5.1	[illegible]	5.7	6.1
Fifth 10%	6.2	[illegible]	6.6	7.2
Sixth 10%	7.5	[illegible]	8.2	8.4
Seventh 10%	9.3	9.3	9.6	10.1
Eighth 10%	11.7	11.6	12.5	12.3
Ninth 10%	16.2	[illegible]	17.2	15.8
Highest 10%	34.4	[illegible]	29.1	28.2
TOTAL	100.0	100.0	100.0	100.0
Lowest 20%	5.4	[illegible]	6.2	6.9
Next 30%	15.5	[illegible]	17.1	18.4
Lowest 50%	20.9	[illegible]	23.4	25.2
Highest 20%	50.6	[illegible]	46.3	44.0
Highest 5%	22.8	[illegible]	17.2	17.8

1/ Excluding the San José Metropolitan Area.
Source: Costa Rica, The Distribution of Income and Consumption of Food, Víctor Hugo Céspedes and 1974 IBRD Report.

ANNEX IV.A.

SAN JOSE CONSUMER PRICE INDEX FOR MIDDLE AND LOW INCOME GROUPS
(1964 100)

	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975
January	99.19	99.83	103.85	107.11	111.58	115.95	118.10		-	196.05
June	99.68	99.94	101.63	107.47	111.81	115.69	122.53	134.21	171.96	211.73
Average for Year	99.52	100.72	104.76	107.60	112.60	116.08	121.42	139.88 1/	181.00 1/	213.56
% Increase Over Prior Year		1.2%	4.0%	2.7	4.6%	3.1%	4.6%	15.2%	29.4%	18.0%

1/ Estimates since price data not collected for all months of year.

Source: Central Bank of Costa Rica.

MINIMUM WAGES

Industry	Occupation	Daily Minimum 1972	Daily Minimum April 1974	Daily Minimum Dec. 1974	Daily Minimum Dec. 1975
Coffee	Laborer	C12.90	C18.20	C20.20	C24.00
Banana 1/	Laborer	20.80	26.00	28.70	31.50
Cattle	Laborer	14.00	18.00	22.00	26.00
Sugar Cane	Laborer	13.60	19.15	22.90	24.00
Other Agriculture	Laborer	12.80	18.05	20.20	24.00
Mining	Laborer	19.00	24.70	27.25	31.00
Meat Processing	Machine Operator	n.a.	n.a.	31.00	34.40
Candy	Machine Operator	17.35	23.40	25.85	29.20
Coffee Processing	Laborer	n.a.	n.a.	25.75	29.10
Brewery	Machine Operator	23.00	28.75	31.65	35.15
	Unskilled Operator	19.00	24.70	27.25	30.50
Textiles	Machine Operator	17.25	23.50	25.75	29.10
	Unskilled Operator	14.25	20.10	22.30	25.40
Tailoring	Cutters	31.45	36.15	39.65	42.80
	Unskilled Laborer	14.25	20.10	22.30	25.40
Printing	Unskilled Laborer	14.35	20.25	22.50	25.65
Cement	Skilled Laborer	26.20	31.45	34.55	38.00
Motor Vehicle Repair	Skilled Laborer	26.30	31.55	34.70	38.15
Plastics	Machine Operator	n.a.	n.a.	25.40	28.75
Construction	Heavy Machine Op	38.25	42.65	46.65	49.75
	Skilled Laborer	28.50	34.20	37.60	40.60
	Helper	19.95	27.95	28.65	32.65
	Laborer	17.85	23.20	25.85	29.75

1/ Does not include workers with Banana Co. of Costa Rica or Chiriquí Land Co.

Source: Dept. of State Airgram (A-47) dated 4/18/74, Gazette #232 dated 12/5/74, and Gazette #237 dated 12/15/75.

BALANCE OF PAYMENTS
($ Millions)

	1965	 1970	1971	1972	1973	1974	1975
CHANGE IN NET INTERNATIONAL RESERVES	- 1.7	-11.8	+ 11.5	+ 5.8	+ 17.8	- 22.9	+ 20.9
TRANSFER PAYMENTS, GOODS AND SERVICES	-67.1	-74.0	-114.1	-100.0	-111.9	-266.2	-213.1
Balance of Trade (F.O.B.)	-49.2	-55.8	- 91.7	- 58.2	- 67.3	-208.8	-139.2
Balance of Services & Transfers	-17.9	-18.2	- 22.4	- 41.8	- 44.6	- 57.4	- 73.9
CAPITAL MOVEMENTS	54.5	67.6	102.0	63.0	88.9	192.6	195.9
ADJUSTMENTS & ERRORS (including IMF & Ven. Oil Funds)	14.5	- 5.4	23.6	42.8	40.8	50.7	38.1

Source: Central Bank of Costa Rica.

ANNEX V. B.

EXPORTS BY SECTOR OF ORIGIN
($ Millions and Percentages)

	1965	1970	1971	1972	1973	1974	1975	1965-75 Annual Per Cent Increase	1970-74 Annual Per Cent Increase	1974-75 Annual Per Cent Increase
TOTAL EXPORTS	111.8	231.2	225.4	280.9	344.5	440.3	487.7	15.8%	17.4%	10.8%
Agricultural Products	86.9	169.9	158.1	206.9	243.2	287.6	317.2	13.8%	14.1%	11.0%
Coffee	46.6	73.1	59.3	77.8	94.0	124.8	97.0	7.6%	14.3%	-22.2%
Bananas	28.3	66.8	63.9	82.8	90.7	98.3	134.6	16.8%	10.1%	37.0%
Sugar	4.6	10.1	12.9	13.1	21.5	24.4	48.2	26.5%	21.7%	97.5%
Meat	5.2	18.0	20.5	30.2	32.6	34.2	32.1	20.0%	17.4%	-6.5%
Other	2.2	1.9	1.5	3.0	4.4	5.9	5.3	9.2%	32.7%	-11.4%
Manufactured Goods & [illegible]	21.9	61.3	67.3	74.0	101.3	152.7	170.5	21.2%	25.6%	11.7%

Source: Department of Statistics thru Monthly Statistical Bulletin of the Central Bank (Dec. 1975).
NOTE: Exports are F.O.B.

ANNEX V, C.

IMPORTS BY TYPES OF GOODS
(\$ Millions and Percentages)

	1965	1970	1971	1972	1973	1974	1975	1965–75 Annual Per Cent Increase
TOTAL IMPORTS	178.8	318.6	351.3	372.9	455.3	719.7	698.6	14.6%
Consumer Goods	55.8	103.0	111.7	103.4	115.3	169.4	138.4	9.5%
Non-Durables	34.6	69.7	74.1	70.7	76.8	112.2	93.8	11.7%
Durables	21.2	33.3	37.6	32.7	38.5	57.2	44.6	7.7%
Raw Materials	57.6	111.[illegible]	120.4	136.4	182.8	326.7	299.0	18.[illegible]
For Agriculture	5.8	9.2	9.0	9.8	11.9	19.2	21.9	14.2%
For Industry & Mining	51.8	102.2	111.4	126.6	170.9	307.5	277.1	18.3%
Lubricants & Fuels	8.2	6.3	6.9	8.3	12.4	24.4	44.8	18.5%
Construction Materials	11.5	17.3	16.8	15.1	18.3	33.3	35.3	11.9%
Capital Goods	35.1	78.7	93.9	109.7	12[illegible].2	164.1	177.2	14.7%
For Agriculture	3.6	[illegible]	9.6	9.0	10.7	12.4	19.3	18.4%
For Industry & Mining	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12.9%
For Transport	13.6	[illegible]	[illegible]	[illegible]	36.0	[illegible]	[illegible]	[illegible]
For Construction	1.3	10.2	13.1	15.7	13.5	19.7	22.3	17.9%
Other	10.8	13.4	15.7	16.3	21.6	33.6	30.9	11.1%
Other & Adjustments	0.6	1.9	1.6	–	2.1	1.6	3.9	20.6%

NOTE: Imports are C.I.F.
Source: Department of Statistics thru Monthly Statistical Bulletins of the Central Bank of Costa Rica.

INDUSTRIAL IMPORTS
(Millions of Dollars)

Year	Primary Materials	Capital Goods	Total	% of Total Imports
1961	22.0	7.6	30.4	28.4
1965	51.8	15.8	67.7	38.0%
1970	102.2	25.7	127.9	40.4
1971	111.4	25.4	136.8	39.1%
1972	128.4	26.7	155.1	41.6%
1973	170.9	42.4	213.3	46.8%
1974	295.5	48.9	344.4	49.5%
1975	277.1	53.1	330.2	47.2%
1976 (1st half)	112.3	50.6	162.9	46.0%

Source: Central Bank of Costa Rica.

DIRECTION OF TRADE
($ Millions and Percentages)

Region of Origin/Dest.	1963 Value	1963 %	1967 Value	1967 %	1971 Value	1971 %	1974 Value	1974 %	1975 Value	1975 %
EXPORTS										
To Central America	3.9	4.1%	26.9	18.8%	47.0	20.9%	104.3	23.7%	95.3	19.5%
To Rest of World	90.9	95.9%	116.4	81.2%	177.6	79.1%	336.0	76.3%	392.4	80.5%
Total	94.8	100.0%	14.3	100.0%	224.6	100.0%	440.3	100.0%	487.7	100.0%
IMPORTS										
From Central America	3.8	3.1%	34.2	17.7%	76.5	21.8%	114.0	15.8%	114.0	16.3%
From Rest of World	120.3	96.9%	158.6	82.3%	273.7	78.2%	605.6	84.2%	584.6	83.7%
Total	124.1	100.0%	192.8	100.0%	350.2	100.0%	719.6	100.0%	698.6	100.0%

Source: Central Bank of Costa Rica.

ANNEX V. E.

ANNEX VI.A.

GOCR EXPENDITURES AND REVENUES
(Millions of Colones)

		1970	1971	1972	1973	1974	1975
1.	Current Revenue	883.2	909.5	1,041.2	1,386.9	1,936.2	2,278.5
2.	Current Expenditures	769.1	907.6	1,014.6	1,235.1	1,556.5	2,147.0
3.	Gross Savings on Current Account	114.1	1.9	26.6	151.8	379.7	131.5
4.	Amortization of Debt	87.4	93.7	106.1	162.7	159.6	210.0
5.	Balance on Current Account	26.7	-91.8	-79.5	-10.9	220.1	78.5
6.	Capital Expenditures	118.1	245.9	293.1	468.8	552.9	512.7
7.	Balance	-91.4	-337.7	-372.6	-479.7	-332.8	-591.2
8.	Financed by:						
	Foreign Credit	[illegible]	106.1	171.5	241.8	207.7	247.2
	Domestic Credit	37.5	196.5	132.8	310.7	244.3	169.8
	Other			0.5	91.0	47.0	111.8
		157.8	302.6	304.8	643.5	499.0	528.8
9.	Final Balance	-96.4	-35.1	67.8	-163.8	166.2	-62.4

Sources: Controller General Reports, 1971-1975.

CENTRAL GOVERNMENT EXPENDITURES
(Millions of Colones)

	1970	1971	1972	1973	1974	1975
TOTAL	9[illegible]4.6	1,247.3	1,413.8	1,866.6	2,268.8	2,869.7
Legislative Assembly	7.3	9.5	10.[illegible]	11.1	14.8	19.3
Controller General	4.7	6.0	7.2	8.4	10.5	14.8
Min. of the Presidency	7.5	10.5	10.5	12.3	21.6	34.5
Min. of the Government	50.8	53.6	56.5	68.0	120.4	169.1
Min. of Foreign Affairs	7.9	12.5	11.9	12.1	16.5	22.9
Min. of Public Security	24.1	28.7	30.7	38.0	49.5	70.5
Min. of Finance	50.7	29.1	33.[illegible]	36.4	483.5	568.4
Min. of Agriculture	15.4	29.3	32.[illegible]	35.6	68.7	84.1
Min. of Industry, Economy & Commerce	6.1	8.3	9.[illegible]	11.7	14.5	20.2
Min. of Transport & Public Works	[illegible]12.2	168.2	242.[illegible]	251.9	430.6	487.3
Min. of Education	[illegible]41.5	267.5	313.[illegible]	391.1	612.2	850.6
Min. of Health	[illegible].4	31.8	33.[illegible]	37.2	141.7	166.3
Min. of Labor & Social Security	[illegible].0	7.5	6.[illegible]	7.0	117.1	162.2
Min. of Culture, Youth & Sports	-	7.[illegible]	5.[illegible]	6.4	22.6	22.3
Supreme Court	[illegible].9	45.5	52.[illegible]	61.5	75.5	101.6
Elections Commission	20.3	7.4	10.[illegible]	36.4	16.9	15.2
Special Works	-	-	-	-	-	-
Readjustments	-	-	-	-	-	3.4
Current Transfers 1/	[illegible]82.8	226.4	248.[illegible]	289.6	8.4	13.8
Capital Transfers 1/	[illegible]2.9	88.5	7[illegible].[illegible]	239.2	43.8	43.0
Public Debt 1/	178.9	214.7	223.[illegible]	312.6	-	-

1/ Covered primarily by Ministry of Finance beginning FY74.

Source: Controller General Report, 1975.

ANNEX VI.C.

CENTRAL GOVERNMENT TAX REVENUE
(Millions of Colones)

	1970	1971	1972	1973	1974	1975
TOTAL	[illegible]	[illegible]	1,041.2	1,386.9	1,936.2	2,278.5
A. Taxes	806.1	[illegible]	963.2	1,285.8	1,811.9	2,122.2
1. Direct	[illegible]	211.2	258.9	330.7	424.5	494.3
Income	[illegible]	[illegible]	213.0	291.1	389.3	441.6
Property	[illegible]	5.2	5.4	5.6	4.1	1.5
Other	41.1	[illegible]	40.5	34.0	31.1	48.1
2. Indirect	606.6	628.0	704.3	955.1	1,387.4	1,627.9
[illegible]	[illegible]	[illegible]	[illegible]	286.9	367.7	328.6
Exports	[illegible]	12.3	11.9	15.9	227.0	349.0
Production	[illegible]	[illegible]	27.4	67.9	67.9	79.4
Consumption	[illegible]	[illegible]	427.9	565.2	698.6	839.6
Commerce/Trans./etc.	9.6	13.0	14.3	18.8	25.9	30.8
Other	0.2	0.3	0.2	0.3	0.3	0.4
B. Non Tax	76.3	67.3	78.0	101.2	124.3	156.3

Source: Controller General's Report, 1975.

ANNEX VII. A. 1.
ANNEX VII. A. 2.
ANNEX VII. A. 3.

HEALTH INDICATORS

I. AVERAGE ANNUAL MORTALITY RATES PER 1,000

Age Groups	1952-56	1958-[illegible]	1963-67	1968-72	1973
Less than 1 Year	74.1	[illegible]	67.0	59.8	43.6
1 to 4 Years	9.1	[illegible]	6.2	3.9	3.0
5 to 9 Years	1.7	[illegible]	1.2	0.9	0.7
10 to 14 Years	0.9	[illegible]	0.7	0.6	0.5
15 Years +	9.9	7[illegible]	7.0	6.6	6.1

II. INFANT MORTALITY RATES, BY REGION (1969-73)
(Per 1,000)

Year	Country	Central Region	Northern Region	Pacifico Norte	Atlántica Region	Pacifico Sur
1969	67.1	49.[illegible]	65.1	70.5	88.5	70.8
1970	60.4	48.6	57.4	[illegible]	53.8	64.5
1971	56.[illegible]	[illegible]	48.7	[illegible]	76.9	59.3
1972	54.[illegible]	[illegible]	46.7	[illegible]	66.5	56.0
1973	47.4	52.6	34.5	[illegible]	56.5	53.6

III. CRUDE BIRTH RATES, BY REGIONS, 1970/1973
(Per 1,000)

Year	Country	Central Region	Northern Region	Pacifico Norte	Atlántica Region	Pacifico Sur
1970	33.8	32.6	31.1	[illegible]	35.8	42.4
1973	25.4	26.6	25.8	[illegible]	31.4	35.2

Source: Department of Statistics, Ministry of Health, 1975 Bulletins.