

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



DEVELOPMENT ASSISTANCE PROGRAM

USAID COSTA RICA

AMENDED STRATEGY STATEMENT

**DEPARTMENT
OF
STATE**

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I. STRATEGY STATEMENT

A. Summary

Costa Rica has achieved substantially more economic and social progress than its Central American neighbors, and in certain aspects (e.g., education, nutrition, health, family planning, and public administration) is more advanced than much of Latin America. Nevertheless, a substantial element of the population is still poor. This poverty has been recognized by the Government, and its amelioration is the dominant theme in the Government's pattern of national priorities and budget allocations. The Government has devoted considerable effort and resources to the achievement of both growth and equity objectives, with the provision of social services and income redistribution forming the basis for its equity-based programs. This has moved Costa Rica to middle-income status, as reflected by a per capita GNP above the Latin American average and a relatively healthy, well-educated, and secure population. However, if Costa Rica is to maintain high economic growth rates, while simultaneously pursuing its equity goals, it must pursue new policies and programs for maximizing the efficient use of its own resources.

This requires greater emphasis on increasing productivity and production-oriented employment and, given the Government's commitment to reducing poverty, will lead to a reevaluation of its growth and equity objectives. Increased productivity and employment will generate higher incomes and concomitantly reduce the need for expansion of welfare services for the poor. Sectoral analyses and other studies are revealing opportunities for three potential target groups: small farmers whose overall productivity and incomes can be increased; rural non-farm poor who can provide the necessary labor for increasing on-farm production, as well as for agri-industries and rural services; and urban poor who offer a growing and underutilized labor pool for industry and services. Overriding all of this is the need for more efficient use of available resources; improved analysis of the causes of and solutions to poverty; and better Governmental planning, presently hampered by some data deficiencies and inadequate analysis of existing data.

Recognizing the exogenous constraints on the content and volume of the future program in Costa Rica (e.g., large external debt, non-PLDC status), AID's program during the next five years will move in purpose from treating agricultural and urban problems to transfers of technology, information gathering and analysis, and planning and management skills. These projects will feature high

local contributions, loans at AID's least concessional terms, and declining funding levels as the Government of Costa Rica increasingly turns to other sources for project financing.

B. Program Strategy

Since the important consequences of poverty, such as malnutrition and high infant mortality, are under determined assault by existing GOCR programs, the Government is shifting its emphasis to an attack on the causes of poverty. Its objective will be to increase the earning power of the poor, primarily by increasing productivity and employment opportunities, as well as improving the efficiency of distribution of social services. The USAID program will be built around this objective -- through direct assistance in experimental/pilot activities to increase productivity and employment; through influence on policy by the provision of information and assistance in planning, including analysis of the basic needs of the poor; through transfers of technology; and possibly through continued assistance in reducing population growth rates.

A key element of the USAID program will be a focus on opportunities, as well as constraints on policies. Because there are opportunities to increase the earning power of the poor and because Costa Rica is a middle-income country which shares AID's firm commitment to "redistribution with growth" principles, we feel that the AID program in Costa Rica can demonstrate a successful collaborative effort to solve the problems of the poor.

Because of Costa Rica's status as a middle-income country and the relative sophistication of its institutional capabilities, it is appropriate and possible to focus on overall policy directions rather than "institution-building" per se. As a part of the effort to improve policy formulation and planning, direct interventions to increase productivity and employment will be complemented by a group of activities centered on poor families, the fulfillment of whose basic needs is the ultimate aim of the program. These activities will aim to assure that increasing numbers of poor families obtain adequate incomes from increased employment and otherwise share in the gains from increasing production and productivity.

The character of the AID program will vary from those in the least developed countries primarily in terms of its greater emphasis on the assistance of economic and social policy and lesser concern for institution building. Nevertheless, as in the less advanced countries, some experimental or pilot projects are likely to be needed to verify the effectiveness of policies and technical

and economic feasibility of programs. Because the GOCR can manage much of the work involved in that verification process, AID will play a supplementary advisory and technical assistance role, although it will also provide limited capital assistance for pilot and experimental projects aimed at demonstrating new ways to meet Costa Rica's growth and equity objectives.

In addition to working with the GOCR in identifying basic family needs and executing studies and projects in the agriculture, rural non-farm, and urban sectors, we are proposing a science and technology program that will service cross sectoral activities and a family planning project which will provide a direct input to the basic family needs parts of the program.

Although agriculture has always been the leading sector of the economy, widespread destruction of watersheds by farmers seeking new lands, and an increase in the number of small farms -- especially those under one hectare -- indicate that it is no longer the frontier safety valve of the past. There is still room for colonization in certain of the more distant lowlands, but the scope for colonization and opportunities for reversion of land use from extensive livestock enterprises to intensive farming are limited in relation to population growth and the need to assist farmers who are now on uneconomically small plots.

AID will help the GOCR to find ways of intensifying production and employment on existing small farm units, and, if requested, will provide technical assistance in policy measures (e.g., land taxation) that would tend to promote more labor-intensive land use. There is room for substantial improvement in labor utilization through these efforts, although availability of employment will remain a problem. In allocating resources, the agriculture sector program will attempt to strengthen the GOCR's commitment to owner-operated farm units and the use of competitive markets and export orientation.

These on-farm solutions will, however, be inadequate to solve the longer run problems of the rural sector. There will therefore need to be additional efforts to increase off-farm employment and reduce population growth. This will be done through complementary programs in the rural non-farm and urban sectors, as well as continued assistance to the GOCR and complementary programs. The role of the rural non-farm and urban sectors will be to absorb the unemployed and indeed, in the longer run, to draw people off the land as agriculture sector modernization results in more and labor productivity and the need for fewer hands. The AID effort will focus on the creation of productive off-farm employment. General

constraints and comparative factor costs (especially labor) effectively put a limit on further significant expansion of manufactured exports to the other member countries of the CACM. Moreover, membership in the CACM also is an impediment to the Costa Rican devaluation to make its manufacturers more competitive in the world market. Thus, productive employment will have to be based primarily on Costa Rica's comparative advantages in the agricultural sector and will need to emphasize agro-industries able to enter world markets.

In the longer run, the CACM may well adjust its tariff structure and its exchange rate policy to permit its member countries to become more competitive in the world manufacturers market. If it does not, the member countries will be forced to enter increasingly into bilateral trade agreements. In either case, Costa Rica needs to improve the competitiveness of its industry while it absorbs labor and husband's capital. Accordingly, AID will assist the GOCCR through a Science and Technology program that will provide technical assistance for the practical application of appropriate technology to key development problems and opportunities.

As an additional element of its Science and Technology program, and an integral part of agricultural sector efforts to create a Natural Resources Information System and to improve land-use planning, AID will assist the GOCCR in the development of various applications of Remote Sensing.

In spite of achieving a notable decline in the population growth rate over the last decade (from 3.8% p.a. in 1967 to 2.3% in 1977), the growth rate in the rural hinterland remains above 3% per year. Even if the Net Reproduction Rate were to fall to unity within the next decade, Costa Rica's population would double to some four million within 36 years. Because of the higher rates in rural areas, this would result in further fragmentation of farms, increased number of small non-viable farms, and a burgeoning need for off-farm employment.

It can be hypothesized that the urban decline is a result of economic, social and cultural factors affecting the desired fertility levels of families who, in the urban areas, have had access to private sector sources of contraception techniques. It is not clear that the rural areas have either felt the economic and social forces leading to lowered desired fertility or have adequate access to contraceptives. Therefore, if further evaluation indicates a need, AID will continue to support a vigorous population program focussing on the high fertility rural areas.

C. Projects, 1973 - 1980

1. The Poor Family "Basic Needs" Program

Costa Rica has already demonstrated its interest and ability in reaching out to its poor people with welfare programs. It is actually operating programs that most development planners would judge to be far beyond the ability of any LDC government -- perhaps even including Costa Rica. Yet these programs are accomplished facts. Some aspects of the public nutrition system that is already directly feeding more than half the school-age children of Costa Rica are of admirable admirability. In the other hand, the public health program utilizing a well-staffed network of rural health centers and hospitals may be the most economical and effective way of tending to the basic health needs of poor families, especially those scattered in remote rural areas.

Costa Rica's success in meeting basic health needs by keeping track of individual family health conditions suggests extension of the idea to broader development problems: family income, employment, and general welfare. This would be the logical concomitant of giving greater attention to increasing the productivity and income of the poor. For example, agriculture and urban sector program activities will provide opportunities to the poor to better their living conditions; however, only by monitoring the net effect on families can the government ascertain the overall effectiveness of its development efforts on the poor. By looking at family problems and needs, the RCF will also be better able to plan investment and to ensure that resources allocated are consistent with the needs of the poorest.

We therefore propose a "Basic Needs Information System" project which will (1) determine poverty benchmarks, identify groups of people who fall below these benchmarks, and establish baseline data; (2) analyze the causes of poverty; (3) ascertain the basic needs of people and set development objectives accordingly; and (4) establish a system for monitoring changes in poverty. The initial analysis would seek to extract the optimum amount of information from available data, primarily the recent AID-financed Poverty Profile, and determine what additional information is needed. Once this information were analyzed, it would be used as an input to policy and development program formulation (involving other AID programs), with the needs of all users coordinated in the various data collection activities.

The Basic Needs program will also monitor changes across-the-board at the family level, signaling the unattended needs of poor families whose labor is not being demanded or whose productivity is not being increased adequately through sector programs. Such information could influence the allocation of infrastructure, the choice of a crop to be introduced, the size of a particular investment program, public fund allocations by area, selection of policies to stimulate labor demand, and could promote labor intensive methods.

USAID will assist the COL in developing this Basic Needs approach through a Basic Needs Information System Project. Total project cost is estimated at \$2.5 million, with an AID loan financing \$1 million.

2. The Agriculture Sector Program (See Section IV.B. for more detail)

The Sector Assessment states that Costa Rica's agriculture sector is an intermixture of high-value and low-value and high-productivity and low-productivity activities. In order to increase the incomes of the rural poor, Costa Rica must go beyond efforts to increase the productivity of farmers where (and as) they are. It must undertake a complex restructuring of much of its agriculture, finding economic opportunities and overcoming physical barriers so that it can use its land and labor resources to optimum advantage.

As discussed in the Agricultural Sector Assessment, the constraints most seriously affecting the development of the Agricultural Sector of Costa Rica at the present stage are:

- Deforestation and poor land use patterns,
- Lack of adequate marketing and processing,
- Inadequate sector policy and program planning and coordination, and
- Lack of adequate technology for diversification of agricultural products.

3. Project for FY 1973

The Mission is in the final stages of developing its FY 1973 Land Productivity and Employment Generation Project. This project will address post-harvest and marketing

problems of traditional crops and the development of vertically integrated production, processing, and marketing systems for selected high value non-traditional crops that have potential for increasing land productivity and generating new rural employment opportunities. Activities will focus on farm-related market problems, food processing, agro-industry, new crops in new lands, land settlement, natural resource utilization, and employment generation. For traditional crops, the emphasis will be on marketing problems; for new crops, the project will focus on the entire agricultural system, from production to final sale.

Total cost of the program is \$11.5 million with a FY 1978 AID loan of \$8 million, a grant of \$3.0 million, and a GOCR counterpart contribution of \$0.5 million.

b. Program for FY 1979

The Agriculture sector Program beginning in FY 1979 will be composed of four components:

(1) Natural Resource Information System, on which to develop a coherent and integrated national policy for resource and land use. This system would contribute to new policies, new land colonization programs, and improved utilization of land and renewable natural resources. With regard to the Government's re-forestation efforts, policy measures might include:

- Land taxation based on the productive capacity of the land;
- Strengthening of the technical and enforcement capabilities of GOE agencies responsible for forest conservation, control, and management;
- Creation of a renewable natural resources institute with the capacity and authority, (for example) to do forestry studies, construct terraces, promote engineering solutions to control water flow, stimulate strip planting of trees, and establish nurseries for forest and fruit trees;
- Subsidies to owners of steep pasture lands to allow pastures to remain idle, thus re-foresting themselves at little cost;

- Subsidies or tax incentives to induce reforestation of high value species;
- Promotion of good forestry management practices and rational wood-using industrial systems, including replanting;
- Modification of laws which reward indiscriminate land clearing;
- Requirements that public and private entities involved in land development or settlement submit environmental impact statements;
- Inclusion of forestry components (where appropriate) in land plans;
- Establishment of credit and crop insurance programs conducive to private planting of forests and tree crops;
- Controls on land utilization according to slope of land, e.g., 2^o-10^o annual crops; 10^o-30^o perennial crops; <30^o tree crops or natural forest stands;
- Creation of additional forest reserves and national parks;
- Information and education programs.

The newly created Vice-Minister of Agriculture for Natural Resources (or the planned Institute for Development of Natural Resources, INDERENA) would be the executing office.

Activities are expected to include a national natural resource survey employing combinations of remote sensing imagery, modified aerial photography, ground truth inventory, imagery interpretation, analysis and compilation of data on forests, soil, water, climate, marine resources and others. This activity will improve the CONR's capability to obtain and utilize data on a continuing basis for purposes of formulating policies, laws, management systems and the development and execution of programs for the rational use of renewable natural resources. Information useful to other sectors will also be available through this activity.

Estimated cost for a three-year program is \$4 million under Loan funding with \$200,000 in related technical assistance from Administrative, Technical Support or Grant Funding sources.

(2) Improvement Within the Agricultural Product Market System - Resources would be provided to local, regional, and national market systems to provide income generating opportunities, to reduce food losses, to improve food quality, and to lower costs to consumers. The Ministry of Agriculture (MAG) and the Institute for Municipal Development (IFAM) would be the GOCR institutions most likely to be involved.

Activities would implement planned activities of a national marketing system started by IAREI by providing regional and local marketing facilities and related services. Marketing problems of a variety of types would be addressed, including reduction of wastes, quality improvement, and reduction of costs of handling and transport. Post-harvest problems beginning at the farm would be solved, benefiting producers and consumers alike. While the private sector is the principal entity involved in market activities at the present time, the public sector, especially MAG, must play a leading role in making the system more sensitive to the needs of small farmers. This will include relating marketing activities to farm diversification and intensification programs, which in turn are directed toward increasing employment opportunities and small farmer productivity. A three-year program is estimated to cost \$2 million in AID resources with a comparable GUP counterpart contribution.

(3) Agriculture Economics Center - While the entire agricultural program is directed toward sector planning and policy formulation, this project activity supports a Center for Agricultural Economics within the University of Costa Rica. This Center is to be established to train economists, to assist the Office of Sectoral Planning (OSPA) at the Ministry of Agriculture in its sector-wide planning responsibilities, and to develop agricultural information to serve sectoral planning needs.

This project would use early information developed in the Natural Resources Information System. A principal objective will be to develop and improve the GOI and private sector capacity for program and project planning, especially in marketing and agro-industry. The activity will provide a continuing source of planning economists to meet government needs, and the development of a shelf of feasible projects for all of the funding.

Three years of AID support are estimated at \$500,000, with comparable GOCR counterpart funding.

(4) Research, Development and Promotion of Underexploited Tropical Products of High Potential - The Ministry of Agriculture, the University of Costa Rica (UCR), and Regional Research Institutions would most likely be involved in this project. The objective is to focus GOCR efforts on research and development of new high value products to provide small farmers with opportunities for diversification from their current cropping patterns and systems. In view of the changing nature of the world economic situation, the economic threat of coffee rust in Central America, and the need to improve small farmer income and employment opportunities, diversification to high value agricultural products appears to be the best alternative for many small farmer operations. The high level of skills of Costa Rican farmers also demonstrates their readiness to diversify to more sophisticated and mid-level technology crops and cropping systems. Activities over a three-year period are estimated at \$1.5 million of AID resources and comparable GOCR counterpart resources.

c. Projects for FY 1981

Project activities to be included in FY 1981 are the following:

(1) Expansion of Agro-industry Opportunities - The purpose of this project activity is to create employment in agricultural industries, and to explore market opportunities for new products. The program would be coordinated with the Ministry of Agriculture, CINEPA, and the private sector.

Experiences gained through the FY 1978 Land Productivity and Employment Generation Project in a limited number of commodity systems will enable the GOCT to move toward expansion of services and resources to promote agro-industries. Thousands of agro-products have high potential for development. Development and expansion of agro-industry is necessary to capture the value added income, to provide markets for raw agricultural products and to provide additional employment in production, processing and marketing activities. The AID loan funds for this activity are estimated at \$3 million, with equivalent GOCR counterpart contribution.

(2) Export Promotion of Agricultural Products - These activities will depend upon the development of new products for which Costa Rica has a competitive advantage in inter-

national markets. The Ministry of Agriculture, the Export Promotion Center, and the private sector would most likely be involved. Export promotion will be integrally related to agro-industry expansion. A principal objective of the project is to strengthen the capability of the GOCR and private sector to develop external markets for agricultural products, both processed and unprocessed. Estimates of financial requirements for technical assistance, training, research and development are approximately \$1 million for a three-year project.

d. Cost Summary

	(SUS\$)	
	<u>AID</u>	<u>GOCR</u>
<u>FY 1978</u>		
Land Productivity and Employment Generation	4,500	4,000
<u>FY 1979</u>		
Natural Resources	4,000	4,000
Marketing	2,000	2,000
Sector Planning	500	500
Diversification of Agricultural Products	<u>1,500</u>	<u>1,500</u>
Total	4,000	4,000
<u>FY 1981</u>		
Agro-Industry	1,000	1,000
Export Promotion	<u>1,000</u>	<u>1,000</u>
Total	4,000	4,000

No new authorizations are planned for FY 1980 or FY 1982.

6. The Urban Regional Sector Program (See Section IV.C. for more detail).

The GOCR has become increasingly concerned about regional imbalances in economic growth, population distribution, land utilization patterns, and availability of various social services. Particularly alarming is the recent trend toward concentra-

tion of population and poverty in the San José Urban Agglomeration Area, which in 1971 contained more than one-third of the country's total poor. ^{1/}

Migration to the San José Urban Agglomeration has also increased significantly in recent years, resulting in (1) an overburdening of already limited services and facilities; (2) further absorption of prime agricultural lands for urban purposes; and (3) higher concentration of poverty with attendant social problems.

The GOCR is attacking these basic problems on two fronts: through relieving the already serious poverty problems in the Urban Agglomeration and through regional development activities aimed at discouraging new migration to San José. AID will be working with the Government in both of these areas.

a. FY 1978 Program

The Mission and GOCR are now in the final stages of designing a FY 1978 Project using loan and HIG resources to mount an experimental program attacking the causes of urban poverty. The purpose of the project is to demonstrate an institutionalized system designed to raise incomes of the poor and to provide shelter solutions geared to their purchasing capabilities. For a selected target group of 13,000 poor families, the project will address an income deficit of approximately 130,000,000 (\$10,656,000) and provide 7,775 shelter solutions at costs commensurate with income levels. The target group is drawn from the poor located in 93 "tugurios" in 12 districts of San José.

The Ministry of the Presidency will have prime responsibility for directing and coordinating the inputs of the many public and private institutions involved. These include the National Housing Institute, Ministry of Labor, the National Training Institute, the National Community Development Office, and other community organizations, and the Labor Promotion Center.

The three-year project will begin in FY 1978 with estimated financing as follows: an AID development loan of \$6.5 million; an HIG of \$9.3 million; and GOCR counterpart of \$12.9 million.

^{1/} As calculated in the Poverty Profile Survey, considering the poor as those with per capita income less than \$150 in 1969 prices.

b. FY 1980 Program

Because on-farm activities cannot directly provide adequate employment opportunities for the rapidly growing rural population (more than three persons in most periphery areas), employment generation and the strengthening of secondary cities and market towns will be major tools of the regional development effort. The proposed FY 1980 Urban Regional Development Project will assist the GOCR in developing, testing, and refining regional urban development policies and strategies, while simultaneously working to increase employment opportunities in secondary cities and market towns. The project will be implemented through a systematic identification of low income families in a region, their source of income, skill levels, and other factors relevant to their employment potential (perhaps either using or as an input to the basic Needs Information System). An analysis of secondary cities and towns will also be done, determining their relationships to the surrounding rural areas and to the agriculture sector.

Because of the close relationship between urban (and non-farm rural) employment and the world economy, this project's objective to strengthen secondary cities will result in a more integrated rural and urban development strategy.

The project will be implemented in one of two regions, most likely beginning with the Aden Region and followed by the Northern Region. The total project cost is estimated at \$16 million, to be financed by an AID loan of \$7 million and GOCR counterpart of \$9 million, including the necessary industrial credit.

c. Summary

	(\$1000)		
	<u>AID</u>	<u>GOR</u>	<u>LOF</u>
<u>FY 1979</u>			
Urban Environment Project	4,500	4,500	14,000
<u>FY 1980</u>			
Urban Regional Development	4,500	4,500	14,000

4. Science and Technology Program

Beyond the GOCR's efforts to increase productivity and employment opportunities through improved land utilization, crop diversification, and agro-industries, there is a need for more concentrated attention on the general problems of low productivity, especially of the poor, and the potential of technology in solving these problems.

a. FY 1979 Program

The Mission is proposing two activities which will generate outputs of potential use in other sector activities.

(1) Science and Technology - The purpose of this project will be to strengthen Costa Rica's capability to plan, manage, and mobilize scientific and technological resources for direct practical application to economic and social development problems of high priority. The project will focus on the National Council for Scientific and Technological Research (CONICIT), helping to move it into a leadership position in determining science and technological research priorities. The proposed project will provide financing for CONICIT's General Research Fund and for general institutional support to CONICIT. Outputs for the first component will be research projects directed towards high priority development problems, especially to specific technologies in promoting increased employment and productivity and in maximizing the most efficient utilization of Costa Rica's scarce natural and human resources. Outputs for the second component will be seminars, workshops, trained persons at CONICIT, and mechanisms for transferring commercial technologies.

(2) Remote Sensing Applications - This activity is part of the Natural Resources Information System included in the FY 1979 Agriculture Sector Program. Although funded in the Agriculture Sector, its effects will be broader and will contribute to our overall Science and Technology Program.

b. FY 1982 Program

Depending upon the preliminary mechanisms designed in the FY 1979 Science and Technology Project for the transfer of commercial technology and upon the resolution of a number of international issues relating to multi-nationals, patent laws, and trade, the Mission will propose a separate Transfer of Commercial Technology Project in FY 1982. The particular scope of project implementa-

tion cannot now be identified, although the project might include international market studies to encourage new production in which Costa Rica has some comparative advantage; technical assistance in international grades and standards; and the promotion of linkages to the U.S. industrial/commercial sectors.

An AID loan would be approximately \$3 million, with at least matching funds from the ROCR and by Costa Rican private sector.

c. Cost Summary:

	(0000)	
	<u>AID</u>	<u>ROCR</u>
<u>FY 1979</u>		
Science and Technology	3,000	3,000
Remote Sensing (non-additive)	_____	_____
Total	3,000	3,000
<u>FY 1980</u>		
Transfer of Commercial Technology	3,000	3,000

5. Population Program (See Section III.D. for more detail).

The demographic transition experienced in Costa Rica has been no less than remarkable. The measurement of this transition (e.g., reduction in the population growth rate from 3.2% in 1967 to 2.3% in 1977) has been well documented, but the reasons for it are neither clearly understood nor well documented.

The national family planning program has matured from humble beginnings over one decade ago to a fairly respectable operation with more than 300 family planning service distribution points in the public sector.

In our October 1978 TAF submission and in the Project Paper for our present Family Planning Services Project, we suggested that AID bilateral assistance to the national family plan-

ning program be terminated at the end of FY 1978. However, before making a final determination on this issue, we recommend that an in-depth evaluation of the program, including the role of AID assistance, be conducted during 1978. A major purpose of this evaluation would be to estimate the prospects for restoring dynamism to the National Family Planning program and determine whether continued AID assistance would be essential to this process. Each part of the program, as well as each participating organization's contribution to it, would be analyzed.

The need for this full evaluation has become evident in recent months because of a series of program reversals. First, voluntary sterilization (surgical contraception) has been banned, even though preliminary data from the World Fertility Survey show surgical contraception to have been second to oral contraceptives as a method of choice in Costa Rica. Perhaps even more importantly, adverse publicity went beyond the sterilization issue to the entire family planning program. This, in turn, resulted in a ban on the Intrauterine Device (IUD), a method of contraception used by nearly eight percent of the female respondents interviewed as part of the World Fertility Survey. The prohibition on the use of voluntary sterilization as a means of contraception is based on an old law which makes it illegal for a physician "to mutilate a healthy organ". The ban on the IUD was ordered by a judge on the basis of a technical report that the device can cause abortions, which are also illegal in Costa Rica. In the case of sterilizations, it appears that new legislation will be necessary to legalize this popular form of contraception, and that such legislation is unlikely, in the near future. As concerns the IUD, further judicial review is required to determine whether it is really an "abortive substance".

The third setback has been the abandonment of the Women's Health Care Specialist Program which was to upgrade the skills of auxiliary nurses; allowing them to perform some activities that only physicians and more highly trained nurses are allowed by law to perform. The Professional Nurses Association has refused, however, to endorse the program.

Together with an in-depth evaluation of the Costa Rican family planning program, we recommend that the study of fertility determinants begun in 1976 by Dr. J. Mayone Stycos of Cornell University be carried through to completion. The first phase of his analysis was done through a partially funded AID contract (AID/afr-G-1493). Dr. Stycos has proposed a second phase to

complete the study. We recommend early AID/W approval of the study which should produce a final report by the fall of 1978.

Using this information on fertility decline and program evaluation results, the Mission would decide during 1978 whether bilateral assistance should continue beyond 1978.

The Mission assumes that the Strydom Study on fertility decline will continue to be centrally funded, thereby requiring no USAID funds. Additional FY 1978 funds of \$35,000 will be requested to cover the in-depth evaluation. If following the evaluation, bilateral assistance is continued, we estimate that grant funding (excluding centrally funded commodities) will be no more than \$200,000 per annum.

6. Summary, AID Program FY 1978 - FY 1980

	(\$000)			
	AID		HDS	MCF
	Loan	Grant		
<u>FY 1978</u>				
Land Productivity	4,000	367	-	4,367
Urban Environment	8,500	-	8,900	17,400
Population	-	411	-	4,116
CPG's	-	812	-	-
Project Development & Support	-	437.1	-	-
	14,500	1,627	8,900	24,126
<u>FY 1979</u>				
Basic Needs Information System	4,000	-	-	4,000
Agriculture Sector	3,000	100	-	3,100
Science and Technology	3,000	-	-	3,000
Land Productivity	-	177	-	-
Population	-	411	-	4,100
CPG's	-	811	-	-
Project Development & Support	-	437.1	-	-
	10,000	1,836	-	21,836
<u>FY 1980</u>				
Urban & Regional Development	8,000	-	-	10,000
Population	-	411	-	14,350

	(\$000)			
	<u>Loan</u>	<u>Grant</u>	<u>HIG</u>	<u>GOGR</u>
OPG's	-	300	-	-
Project Development & Support	-	400 1/	-	-
	3,000	700	-	11,350
 <u>FY 1981</u>				
Agriculture Sector	4,000	-	-	4,000
Population	-	700	-	1,500
OPG's	-	200	-	-
Project Development & Support	-	340 1/	-	-
	4,000	740	-	5,500
 <u>FY 1982</u>				
Transfer of Commercial Technology	3,000	-	-	3,000
Population	-	200	-	1,500
OPG's	-	200	-	-
Project Development & Support	-	200 1/	-	-
	3,000	600	-	4,500

1/ Includes \$50,000 for Special Development Authority.

II. THE AID STRATEGY FRAMEWORK

A. The Setting

Costa Rica is by virtually all definitions a Middle-Income country. A USG consensus has emerged from NSC 13 deliberations that it is desirable to continue an AID program in Costa Rica. Congress has given impetus and implied approval to a Middle-Income country approach by specifying that a small share of AID Loan funds be lent at 10 years maturity.

The basic development rationale for AID in continuing is the desire to consolidate and perfect the admirable growth-with-equity development process that has occurred in Costa Rica, not only for its own sake but as a model to be replicated in other countries as they advance to this level.

This background poses the basic question of what kind of AID program is appropriate and desirable at this stage of Costa Rica's development, taking account both of Costa Rica's accomplishments to date and the problems peculiar to its present situation.

B. Methodology and Premises

In developing an AID strategy for Costa Rica, the Mission began with a series of premises:

1. That Costa Rica is a relatively well-off, middle-income country and that this might require a totally new approach to the solution of development problems;

2. That AID should seek primarily to provide ideas and interchange of developmental experience, i.e., minimize capital transfers and maximize loan-financed technical assistance;

3. That growth and equity goals can be realized together in pursuing our proposed program and that harmonizing those goals is in fact an integral part of Costa Rica's overall development effort; and

4. That the above are consistent with AID W's injunction "to focus on selected bottlenecks, usually of a human resources or institutional nature...to define and help create the conditions for accelerating sustained and broad-based participatory growth." (STATE DEPT., Para. 4.3, Interim Report, December 2, 1978.)

Using the above premises, and believing that a totally new approach might need to be developed for middle-income countries, the Mission first considered dichotomizing the program. One part of the program would directly address the problems of hard core poverty and the other would address broader second generation development problems relating to planning, environmental protection, conservation, and transfers of technology. However, following completion of the Agriculture Sector Assessment and the Poverty Profile Study and discussions with GOCR officials on the future directions of Government plans and resource allocation, the Mission realized that the two components are integrally related and should be melded into one strategy: i.e., a focus on production means of reducing poverty.

This has yielded a strategy which is not radically different from those in many of the least developed countries, although there will be a greater concentration on attacking the causes of low-earning power and poverty than on its purposes as increasing basic food supplies or delivering welfare services to the poor. We conclude that a middle-income country program can be similar to other AID programs except that it deals with development problems at a more sophisticated level, playing a less prominent role in the host country's development operations, but performing a more important advisory and technical assistance function in policy making and planning. The lesser need to play an "operational role" is because Costa Rica's capacity to implement its chosen policies is so strong. The potential for playing a more important advisory role in policy making and planning is primarily based on the traditionally close U.S. and Costa Rican relations in the development field and the presence of considerable data, the AID-financed analysis of which can influence policy indirectly.

The methodology and the uniqueness of Costa Rica's historical development have led to a country-specific Costa Rican strategy which is not necessarily a prototypical middle-income country strategy. There is, however, at least one prototypical element of our strategy: simply that programs in middle-income countries can focus mainly on productive solutions to poverty -- and that this concentration will broaden a program and enable it to address important second generational development problems of concern to middle-income countries.

C. Derivation of the Strategy and Program

The strategy emerges from the great success that Costa Rica has had in raising incomes and improving the quality of life for most of its people. Good basic education has long been a uni-

versal feature of the country, to which has recently been added an effective health delivery system and a nutrition-oriented food supplement program. Retirement and other welfare and redistribution programs have been widely extended. However, there is a genuine concern throughout the GOCP that redistributive social programs may be getting out in front of production growth, and that private initiative and market orientation may be eroded if this trend continues. The situation therefore calls for renewed emphasis on costs and efficiency, recognizing that the ultimate solution of the poverty problems and the ability to support welfare programs must come from increasing production and productivity, as well as simultaneously reducing excessive population growth rates.

Costa Rica's new development plans will focus simultaneously on both overall productivity problems and on increasing the productivity of the poorest workers. To help these workers become reasonably productive will require numerous investments throughout the economy. The GOCP, understanding that AID cannot contribute to that gross resource need, has nonetheless sought AID participation in its development program to the extent possible.

In developing a strategy to meet this request, AID has had to resolve whether it should participate in the total effort, or should confine itself directly to work on the problems of the poor. Our response is that (i) the problems of poverty and overall resource allocation are inextricably linked in the development planning process; (ii) by participating in the entire planning process we can help assure adequate attention to the poverty problems in all facets of that process; (iii) conversely, if we limit ourselves to activities narrowly confined to direct focus on the poverty problems, we are apt to miss opportunities to prompt desirable attention to poverty aspects across the board.

We assure also, that it would be valuable for AID to have a "demonstration project" of this kind to see to what extent solutions to poverty problems can come from integrated overall development planning and policy making, as compared with pilot-scale projects of direct help to "target groups". The effectiveness of this approach will be tested by looking at the basic needs of the poor and monitoring changes in their status over time.

AID's potential influence on Costa Rica's overall development planning and policy formulation is an important reason for participating in the country's broad development efforts, rather than merely concentrating directly on the immediate problems of the poorest. Although AID is a minor lender to Costa Rica, it can exert considerable leverage on policy and programs through the provision of good technical information.

The current deforestation/beef livestock issue is a good case-in-point of the potential "leverage of information". Deforestation is to a large degree the consequence of expanding pasture land, which is itself the result of a series of credit and other policies encouraging beef production. While the precise extent and effects of deforestation are not known, there are people within the GOCR who view the situation with alarm. Without accurate information, they are hard pressed to prove their point against those who argue that the contribution of beef to the balance of payments is justification for continued support of this activity. With information from CRIES and the proposed Natural Resources Information System, they should be able to argue their case convincingly. By being presented with undeniable evidence that given policies (or policy changes) are in the best long-term interest of the country, national leaders, especially in a democracy like Costa Rica, will act accordingly.

By providing good information, or the means to develop it, AID can have a significant effect on policy, even without substantial capital transfer as "leverage".

Costa Rica's institutional capacity reflects its middle-level state of development. Its institutions are relatively well-organized and highly-skilled, but at the same time, are not yet fully equipped or well enough organized to meet development needs adequately. The government's technical agencies are, however, sufficiently well-organized and staffed that there is little or no scope for basic institution-building. Rather, the institutional shortcomings stem from lack of well-elaborated development strategies and policies, and systematic and coordinated programs to carry them out. Similarly, private enterprise mainly needs clear-cut market signals, and some support through technological and economic research. In fields where national development policies have been decided upon, such as education and health, (and most recently nutrition), implementation has tended to be vigorous and effective. Given the much more complex problems in the field of agriculture, policy issues and institutional problems in that sector appear to loom larger. Our view is that an effective planning effort can best act as the catalyst for policy coordination and institutional improvement.

We therefore see little need for basic institution-building or participant training. We expect that the Government will need outside help in only specialized areas. Thus, our contributions will tend to involve distinct projects grouped as sectors for financial or administrative reasons.

The selection of project activities will be based on technical rather than budgetary deficits. Projects will address the problems of small farmers, non-farm rural poor, and urban poor, with these programs supported by (a) across-the-board studies of poverty, and the impact of both development and distribution programs on the basic needs of the poor; (b) transfers and creation of supplemental technology; and (c) expansion of family planning services. The agriculture, rural non-farm, and urban programs will focus on the problem of providing productive employment.

In the case of the small farmer and rural non-farm sectors, productive employment is intimately tied in with the course of agricultural development. Participation of the poor is part of the overall job of deciding how to optimize the use of Costa Rica's labor, land and water resources. This planning task is broken down into three parts for administrative convenience: overall planning; land resource planning (mainly technological); and marketing and processing (mainly economic). Not all the specific activities will deal directly with poverty problems. They will, however, all be at least indirectly related through their purpose as part of the "overhead" work needed to devise poverty policies and carry out direct programs. They will also deal with poverty problems as a factor in overall policy-making, which can be directly or indirectly aimed to affect the welfare of the poor.

The situation in urban development is analogous. Costa Rica has no "ghettos". The quality of life of the urban poor is determined by their ability to work productively and to share in the amenities provided by the urban public and private institutions. This "urban" sector includes the San José Urban Agglomeration and regional secondary cities. In the latter case it is sometimes identical to the rural non-farm sector. Hence, there will be a close relationship between productive employment solutions in the three sectors, e.g., agro-industrial development.

In developing our program strategy, we have also considered the implications of our approach on counterpart funding, input sources and the mix of loan and grant funding.

ECOR counterpart funding for the programs herein envisioned, based on the transfer and testing of ideas and research projects where our support is catalytic to host country efforts, will be a much higher percentage than in other ID's. We look for a matching of loan funds. Although we look to finance substantial technical assistance from the U.S., we wish to be able to finance local (Central American) and Code 9-1 food and services as well.

We take harder than current terms as given. We are confident that the GOCR will borrow on these terms for the Agriculture, Urban/Regional, and Science and Technology programs. We expect to include in the loan packages for these areas the evaluation and pre-project development costs for all subsequent AID activity in the sector.

This population program, being social and politically sensitive, should continue to be grant funded for the foreseeable future.

III. THE COSTA RICAN SITUATION

A. Middle-Income Status

For reasons which are not entirely clear to all observers, Costa Rica has evolved in a manner quite distinct from its neighbors, into a republic enjoying two unique (within Central America) and perhaps related features: political and personal freedom; and a level of economic welfare considered "middle-income" by international standards. This status appears through the statistics -- per capita GDP exceeding \$400; literacy rate near 90%; free preventive and curative health services available to 75% of the population; the second longest life expectancy (69 years) and lowest infant mortality rate (38 per thousand) in Latin America; and rapid growth in the agricultural and industrial sectors -- as well as to the eye of the casual visitor, impressed by the animation and obvious well-being of the people in general.

Middle-income status, as it is occurring in Costa Rica, appears to be a moment in which an economic and social "critical mass" has formed which provides the Government with an opportunity to accelerate the pace of production and income growth, and broaden the distribution of benefits to all the population.

This opportunity is at the core of Costa Rican national policy. The challenge facing the Government is to plan and execute such a program despite the constraints of a vulnerable economy, limited finances, and a poverty problem which becomes more difficult to remedy as its incidence is reduced.

B. Vulnerability of the Economy

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 CA-M-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 CA-M.

The dependence on traditional agricultural exports is especially strong. Coffee, banana, beef, and sugar exports comprised more than 60 percent of total exports in 1974, 1977 and

1976. 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. Prices are high today, especially for coffee, but they are likely to fall within the next two years. This instability in prices has meant that the multiplier effects during "high price" years are minimal.

The recent threat of Coffee Rust illustrates again the vulnerability of the economy. While the Government is predicting increases in production due to the use of improved technological inputs required to combat Coffee Rust, the threat of large-scale destruction remains. Even a 10 to 20 percent reduction in the volume of exports would mean a reduction in foreign exchange earnings of some \$15-\$20 million -- thereby increasing the current account deficit and reducing Costa Rica's already small foreign exchange reserves.

The vulnerability of Costa Rica's economy is also seen by the importance of foreign capital in financing investment and balance of trade deficits -- e.g., the contribution of external resources in financing gross capital formation has increased from less than 30 percent in 1960 to an average of 96 percent during 1970-75.

These factors illustrate the fragile equilibrium which the Costa Rican economy has enjoyed and the potential effects on the overall economy of a drop in coffee export prices, a reduction in foreign capital inflows, or a sharp increase in the price of essential imports. Costa Rica, of course, will always be dependent upon external markets. The indicated response is to diversify this dependence in terms of markets and products.

C. Financial Constraints

In planning future development expenditures, Costa Rica must consider its financing limitations, especially with regard to government expenditures and debt servicing.

Government revenue has increased dramatically during recent years: from Q306.4 million in 1970 to an estimated Q2,700 million in 1976, or 22 percent per annum. The bulk of these increases have been due to changes in the tax structure, i.e., higher rates and the addition of new consumption taxes and temporary use of ad valorem export duties and special taxes. While these "tax reforms" have increased revenue, they have not increased the elasticity of the tax structure, thereby suggesting that future revenue increases of this magnitude will be achieved only if new taxes are added and/or rates constantly adjusted upwards.

During this same period, expenditures increased at slightly more than 24 percent p.a., resulting in a 1976 current revenue/expenditure deficit of some 2973 million (or 3100 million). This deficit is approximately five percent of estimated end-of-year GDP and significantly higher than in previous years.

Because of a high (and increasing) proportion of current expenditures in the GOCR Budget, this resource problem may grow more serious in future years. As stated in the June 1976 IMF Staff Report, "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."

The GOCR will therefore need to face its growing budgetary resource problems on both the revenue and expenditure sides of the ledger. With regard to expenditures, it will need to consider expenditures more carefully, thereby suggesting an increased emphasis on "preventive" or productive development programs as opposed to "curative" redistributive ones.

While Costa Rica's debt service ratio has remained relatively low, it has increased from less than 10 percent in 1971 to 15 percent in 1976. In absolute terms, service payments have increased from an average of \$28 million in the period 1975-76 to an estimated \$30 million in 1976, while external public debt increased to an estimated \$600 million by the end of 1976.

Approximately 80 percent of this outstanding debt is at commercial terms, thereby suggesting a rapid increase in service payments during the next ten years. As long as exports continue to expand at recent rates, there should not be serious problems for Costa Rica. However, if debt service increases more rapidly (as is likely) and if coffee prices fall (as is likely), the debt service ratio could increase to 20 percent by 1985. This, in turn, suggests that Costa Rica will be less able to depend upon external financing to cover its balance of trade and Central Budget deficits and capital formation.

D. Poverty in Costa Rica

In viewing Costa Rica as a middle-income country, IDAII has identified a number of factors which contribute to both rural and urban poverty. In summary, these are (1) low productivity and consequent low incomes; (2) inadequate employment opportunities; (3) inadequate access to factors of production, especially land;

(4) poor management and coordination; and (5) policies which discourage productive participation of the peasant.

The first of these factors, low productivity, is the most difficult to measure -- in either terms of exchange or absolute levels. According to various studies, productivity growth has been higher in Costa Rica than in other Central American countries. However, absolute levels remain far below those in the U.S. or Europe, or even the more advanced Latin American countries. Also comparing national growth in real output to the growth of employment, one finds a near stagnation in productivity growth between 1973 and 1978. This is primarily a reflection of the worldwide economic stagnation of that period. Nonetheless it indicates possible future problems in Costa Rica's pursuit of growth and equity objectives.

Even more important is the effect of low productivity on the poor: i.e., because labor productivity is low, they receive low salaries, often below the poverty level. Using a poverty benchmark of \$150 per capita in 1968 prices, and assuming that each worker supports 3.2 persons, and considering only salaried employees who work more than 40 hours per week, we find that some 127,000 or one-third of all full-time salaried employees earn less than ₡700 (\$82) per month.

Besides low labor productivity, the recent Poverty Profile Survey financed by AID shows low land productivity for the poor; e.g., ₡3,301 gross value of output per usable hectare for poor farms in the one-to-two hectare size group vs. ₡8,705 for the non-poor.

The large number of low-salaried workers also reflects inadequate employment opportunities at levels of sufficient productivity. Two major causes of this are: (1) production patterns and/or relative costs of labor and capital which have generated a preponderance of jobs requiring unskilled labor and (2) a rapidly growing labor force which causes even relatively well-trained workers to settle for unskilled jobs. While serious now, the "demand" side of this problem is likely to grow more serious in the near future. 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, with the potential labor force increasing at more than 4.5 percent p.a. in certain regions of the country by 1983.

The Poverty Profile Survey also substantiates the importance of employment problems for the poor. Using 1973 Census

data, the study shows unemployment rates of four percent for the non-poor vs. 14 percent for the poor, with this rate reaching 18 percent for the urban poor. The study also shows that many small farmers are kept above the poverty line only through off-farm employment.

The poor also have inadequate access to the factors of production, especially land. A Profile of the Rural Poor in Costa Rica, prepared by Samuel Raines states that "...land appears to be a binding constraint on the development of the 75 percent of the target group farmers who are on farms of less than five hectares" (p. 58), and that "...increasing the supply of land to those less than five hectare poor farmers would appear to be a critical need" (p. 59). Also, in discussing the access of the poor to land, one must consider the landless rural poor, most of whom would be able to successfully cultivate land if it were available to them. This "land constraint" for many farmers with less than five hectares should, however, be compared to the larger farmer, even those with 10-20 hectares) who do not use all of their land. This suggests that there is no overall "land constraint" at this time. There are no firm data on the access of the poor to other factors of production, although the Tripartite Agricultural Sector Study asserts that small farmers have little access to agricultural credit. Related to this, the Rural Profile study shows that a significantly smaller portion of poor farmers use fertilizers and other modern inputs.

Although the UNF is committed to having institutions solve development problems and bridge the existing socio-economic gap, poor management and coordination have reduced the effectiveness of many poverty programs. The problem therefore is not poor management per se; but rather the extent of that weak management on the country's part and on the utilization of national resources. Management problems also reduce the access of the poor to government services.

Related to the above are the obstacles in planning for the more sophisticated needs of Costa Rica as a middle-income country, including a reorientation of the economy to which certain policies discourage the productive participation of the government. In spite of the fact that UNF programs are oriented to both redistribution and growth objectives and are highly consistent with the Congressional Mandate, there are a number of well known problems which could be alleviated through better public management, e.g., lowering labor costs relative to capital, increasing incentives for greater use of labor, land distribution, and agricultural extension.

tax to improve the utilization of land; and revision of credit allocation criteria to allow use of credit for non-traditional crops. The Government must increase its efforts to use policy instruments to attack the systemic causes of poverty, as well as using Government programs directed toward post redistribution or increased production.

IV. BACKGROUND BRIEFS

A. Rural Poor Profile

As part of its original October, 1976 DAP submission, the Mission included a "Preliminary Poverty Profile". Following completion of the Agriculture Sector Assessment and refinements in data from the Rural Profile Survey, this section provides an update of our earlier characterization of poverty. There is no major shift in the conclusions of the previous submission.

Using the "moderate" conversion of \$100 per capita to 1973 colones, Table I shows nearly 47 percent of the population below AID/W's poverty benchmark. ^{1/} The general conclusions of the Preliminary Profile, however, remain the same. Poverty is much more concentrated in the rural population than in the urban population: 57 percent of the rural population vs. 31 percent of the urban population. Of particular note in planning future programs, 73 percent of the poor belong to non-farming families -- and even looking only at the rural sector, 53 percent of the rural poor belong to non-farming families.

The revised calculations from the Rural Profile Survey still show a concentration of poverty in the San José and central regions, i.e., some 53 percent of the country's poverty group. Looking at specific geographic areas, the heaviest concentration of poverty is in the Outer Ring of the Central Region. Approximately two-thirds of the populations of that region fall below the \$100 income benchmark. Significantly, some 53 percent of these (115,000 persons) are non-farming rural poor -- i.e., a group which is most likely to migrate to the nearby San José Urban Agglomeration in search of improved income earning opportunities.

The following table (Table I) is intended to replace Table I of the October 1976 DAP, to which the reader is referred for a more complete analytical description of the poor.

^{1/} This increase over the earlier estimate of poverty is due primarily to changes in the methodology for imputing farm incomes.

TABLE I: Geographic Distribution and Composition of Poverty 1/

Area	No. of Persons with Less than \$150 P.C. in 1969 Prices				Area's Poor as % of Total Poverty Group	Poverty Group as % of Total Population In Area
	Urban	Non-Farming		Total		
		Rural	Farming			
San José Urban: Agglomeration	146,065	29,483	+ 139,590	= 292,013	23.5	34.0
Rural Periphery	80,222	+ 207,706	+ 292,864	= 580,782	66.5	57.6
Central Region Outer Ring	18,247	+ 77,125	+ 115,796	= 211,168	24.2	66.8
Outer Regions (Pacífico Norte, Llanuras del Norte, Ver-tiente Atlántica, Pacífico Sur)	61,975	+ 130,581	+ 177,068	= 369,624	42.3	53.4
Country-Wide	262,167	+ 239,163	+ 467,804	= 871,875	100.0	100.0
	(100)	(91)	(100)	(100)		

1/ Using the moderate definition for poverty, i.e., using the mixed exchange rate of 7.7 colones per U.S.\$1 and deflating by the mid-1973 consumer price index.

TABLE II: Poverty Profile (1978) Using AID Income
Benchmark of \$150 Per Capita in 1980 Prices ^{1/}

<u>Sector</u>	Per Capita Income Less than \$150 p.c.	
	<u>No. of Persons</u>	<u>% of Total</u>
Urban	<u>327,187</u>	<u>33.8</u>
Rural	<u>646,818</u>	<u>67.1</u>
Farming	237,184	24.6
Non-Farming	409,634	42.5
<u>Total</u>	<u>974,005</u>	<u>100.0</u>

^{1/} Using the moderate definition for poverty, i.e., using the mixed exchange rate of 7.7 colones per \$1.00 and deflating by the mid-1978 consumer price index.

TABLE III: Major Socio-Economic Indicators, by Region

REGION	1973 Population	No. of People Below \$150 p.c. 1/	% of Region's Pop. Below \$150	% of Houses w/o Basic Services 2/	Crude Birth Rate (CBR) 3/	Infant Mortality Rate (IMR) 3/	% of Region's Pop. > 6 yrs. w/o Formal Education
AMBA RICA	1,874,786	873,805	46.7%	22.4%	29.7	42.5	14.7%
Caribbean Area	525,301	114,447	21.8%	1.6%	30.3	35.2	10.7%
Valle Intermontano	674,209	368,430	54.6%	14.8%	25.3	46.7	
vertiente Atlántica	127,761	57,731	45.2%	40.1%	36.1	64.2	19.0%
Pacífico Norte	256,348	142,914	55.7%	43.2%	34.9	52.8	10.0%
Llanuras del Norte	81,237	39,589	48.7%	47.0%	37.6	45.8	23.0%
Pacífico Sur	245,161	113,794	46.4%	46.2%	37.2	49.0	21.0%

1/ People living per capita incomes below AID/W's benchmark of \$150 in 1968 prices -- converted to 1973 prices and calculated in Poverty Profile Study.

2/ Houses without piped water, electricity, and sanitation facilities, per 1973 Census. (Figures do not refer to quality of facilities or possible state of deterioration. Houses with any one of the three services are excluded.)

3/ Rates calculated on basis of 1973 district rates, the latest district level data available, rates per 1,000.

B. Abstract of Agriculture Sector Assessment

AID's rural sector target group can be disaggregated into the following categories:

1. Non-Farm Rural Poor
2. Poor Small Farmers (1-2 hectares)
3. Poor Small Farmers (2-5 hectares)
4. Poor Small Farmers (5-20 hectares)

To achieve the sector goal of increasing the incomes of these families it will be necessary to increase employment opportunities for groups (1), (2), and (3), and farm productivity for groups (3) and (4). Some families from each group will benefit by receiving land under a redistribution program, which will place them automatically in group (4).

Employment opportunities will be generated both on and off farms. Farms of less than five hectares with potential for intensification will provide increased employment opportunities for the families on those farms and, to a limited extent, for other rural workers. The majority of on-farm employment generation stimulated by development program resources will come from the 5 to 20 hectare farms. A third source of non-farm employment will be non-target group farms of any size. Off-farm rural employment opportunities will come from marketing, handling, and agro-industrial activities.

Diversification into higher value activities and improvements in technology will be the two principal means for improving farm productivity on 1-5 hectare farms. For farms of 5-20 hectares, more intensive land use and, again, crop diversification, are the two principal farm-income improvement strategies. These activities will, at the same time as they provide higher incomes to farmers, be generating employment for the non-farm and small-farm families who depend on wage incomes.

The intensification and diversification of small farms is a complex and difficult process involving a great many necessary-but-not-sufficient factors. Fortunately, many of these factors are already in place in Costa Rica, or the capability exists within the country to provide them. AID's program will help the SCF fill in the remaining gaps. Such factors affecting diversification and intensification of small farms include:

1. Physical Resources: land and soil types, topography, location, water availability and quality, drainage, the extent and

type of possible production activities. In the overall sense, these physical resources are not a constraint to rural development objectives. However, rapid, uncontrolled deforestation is endangering soil and water resources in many parts of the country, and certain areas have begun to experience severe periodic drought due largely to the destruction of watersheds. At current rates Costa Rica will be completely deforested before the end of the century.

This deforestation results from a complex of factors and is complementary to wasteful land-use practices and limited target-group access to land. Extensive, poorly managed cattle ranches create an artificial land shortage, and easy credit for beef production and perverse land use laws encourage deforestation for pasture expansion. Target group individuals searching for new land for themselves often become illegal squatters who clear forested government or private lands. When and where they are legally evicted they must be reimbursed for the "investment" of land-clearing, thus encouraging them to cut quickly and indiscriminately.

Policies to halt the deforestation, encourage better use of existing lands, and find lands for new target group farmers will have to be integrally planned and coordinated at the national level. Crucial to the formulation of such policy is complete and accurate information on natural resources, climate, land use, cropping patterns, etc. A major portion of USAID's agricultural sector programming will support GOCR efforts to improve national systems of resource information, resource conservation, and land-use planning.

Such information will also be essential for determining the technical feasibility by geographic zone of the new production activities under diversification and in other sector planning.

2. Production Factors

Diversification and intensification require a range of production elements which have been addressed in previous AID programming in Costa Rica. These include farmer education, extension, credit, technology, and rural infrastructure. The new AID approach accepts as given that the institutional capability to provide these elements is generally in place. Further efforts will be directed towards focusing these capabilities on specific projects, stimulating coordination, and filling in remaining gaps. For example, though technical capability throughout the agricultural sector is fairly high, in certain areas and for the adaptive research for new activities, additional work is needed. AID program resources will work on such weak links in the chain of elements

needed for successful production diversification.

3. Marketing and Processing

This broad area contains the most serious remaining constraint to farm diversification and intensification. It has been demonstrated often that Costa Rican agriculture responds rapidly to good prices and secure markets. Only by providing such market conditions will the program goals for farm productivity be realized. Specific areas include development of grades and standards, links between producers and processors, development of first-level selection and processing structures, market research and development, food technology research, agro-industry development, and development of packaging and shipping technology. All resources will be used to strengthen all these areas, but not for financing capital investment in agro-industry.

4. Sector Planning

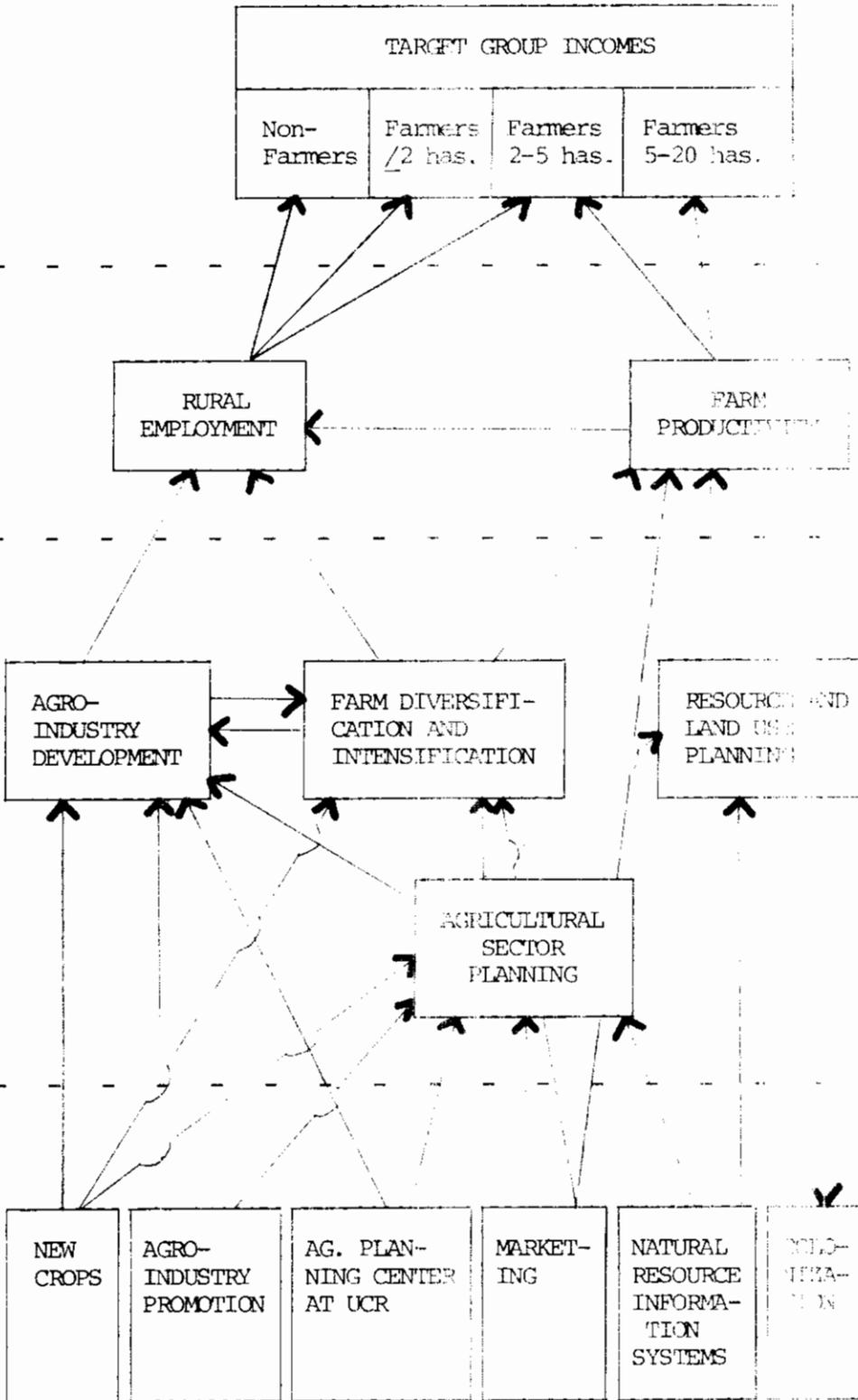
Effective sector planning will be required to implement this complex set of programs. Coordination of credit, resource, land use, price, marketing, and industrialization projects will require a central sector planning unit and policy-making body with power to enforce decisions. Such a body already exists in the CAN, and the OPSA planning office which is beginning to serve as a true sector planning unit. However, it lacks adequate information on which to base policy recommendations and development plans. AID envisions assisting the sector planning capability through the development of an agricultural economic center at the University and through natural resource and agricultural information activities.

The major AID program elements proposed in the Agriculture Sector Assessment are National Resource Information System; Marketing; Agro-Industry; and Exports; Land Titling; Distribution and Sale; Agricultural Sector Planning, Training and Project Design; and Research, Development and Promotion of New Agricultural Products.

Looking at each of these elements and aligning them to AID's Logical Framework, we find four purpose-level activities, as illustrate in Table I:

1. Agricultural Sector Planning and Policy
2. Resource and Land Use Planning
3. Target Farm Diversification and Intensification
4. Agro-Industry Development

TABLE I



GOAL LEVEL:

To increase target group incomes.

SUB-GOAL LEVEL:

To increase farm productivity and generate new rural employment opportunities.

PURPOSE LEVEL:

Program EOPS; expected or desired changes in sector organization, structure, policy, etc.

OUTPUT LEVEL:

AID-supported programs and projects.

These individual activities and their related outputs to one another are summarized below:

1. Agricultural Sector Planning and Policy

a. EOPS

A strong sector planning unit working with the best current information, providing policy recommendations and the decisions stick. Coordination of agricultural sector policy and programs at the national level with decentralization of policy design and implementation, regionally to the local level.

b. Feasibility

The CAN/CPSA system is a good start, with some national agricultural policies being made and enforced at the highest levels. CPSA has a large, excellent staff of technicians, capable of providing the sector planning services. Problems have been the weakness of the institution, some internal management difficulties, and lack of sufficient current information on all aspects of sector activities.

Local level capabilities for project design and implementation are significant. Regional agricultural center (RAF) staffs are well-trained in programming and implementing projects. Cantonal agricultural committees may legally accept and disburse funds, and in several cantons have demonstrated an ability to initiate and implement agricultural development projects. Work is needed however, to form and develop such committees in many cantons where they are not yet operating.

c. Relationship With Other Elements

Five of the six AID program elements will feed information and assistance directly into the Sector Planning System. Data will come from Resource Information, Marketing, Agro-Industry and Exports, and New Site Development. The Division for Agricultural Economics Unit will provide studies, evaluations, etc. on a contract basis. The Sector Planning element will provide the plan, programming, and coordination services to the other three purpose-based activities: Resource and Land Use Planning, Farm Diversification and Intensification, and Agro-Industry Development.

The sector planning system will also coordinate the colonization loan program through the Resource and Land Use Planning Element.

2. Resource and Land Use Planning

a. EOPS

A coherent, integrated, national policy and plan for resource and land use will be formulated. Forest, soil, watershed protection and conservation will be major elements of the plan. Identification of land use zones for reforestation, forest protection, deforestation and development, intensification of existing agriculture, colonization, etc. will be completed. National policies will be established employing credit, taxes, crop insurance and other tools to implement the Plan. Forest and wildlife protection laws will be enforced.

b. Feasibility

The intellectual capability to develop this element exists within the CESA and in the rest of the Costa Rican public and private sectors. At highest level policy-makers feel that an enforced resource and land use plan is a national necessity, the mechanisms exist to implement it: e.g., influencing land use patterns through credit and price policies and the establishment of forest reserves and national parks. There are, however, powerful vested interests whose resistance to such measures must be neutralized by strong political leadership.

c. Relationship to Other Elements

Most of what feeds into this element will come through the Sector Planning Unit, including Resource Information and information on New Crops, though a direct link is also drawn between the Resource Information and this element to show their complementarity. The completed resource plan and policy will feed back into the Sector Planning Unit, will be an essential element to the implementation of the Land Colonization program, and will help determine production zones for Farm Diversification and Intensification.

3. Farm Diversification and Intensification

a. EOPS

Target group farms will be producing a wider range of products destined for agro-industrial processing and non-traditional markets. Value-product per hectare will increase, and inputs per hectare, especially labor, will also increase. A higher proportion of land will be in production.

b. Feasibility

A wide range of products is already being produced by Costa Rican farmers, many of whom have less than 20 hectares. With the development of marketing channels for new and increased production such diversification is feasible. Regarding intensification, there appears to be a significant quantity of land in the 5-20 hectare size group which is not in production. In the whole 2-20 hectare group there is much land in production, but primarily in low-value activities which could be intensified.

c. Relationship To Other Elements

Diversifying and intensifying target farm production will be the most crucial element in the whole process. It will provide more jobs for rural workers, be the major means for increasing farm productivity, and provide raw materials for agro-industry. Sector Planning efforts, New Crop Development, Marketing activities, Land Use Planning, and Agro-Industry markets all will make direct contributions to this element.

4. Agro-Industry Development

a. ECPS

New Agro-Industries will be developed, purchasing raw materials from target group farmers, employing target group workers, supplying national, Central American, and export markets, and providing T.A. and credit to farmers.

b. Feasibility

Several industrialized commodity systems exist in Costa Rica, especially for the principal export products. Development of new systems for non-traditional crops and target group farmers will require replicating such systems in a much shorter time than the existing systems took to develop. The elements are in place and available. What is required are means of identifying technically and economically feasible new products and encouraging the private sector through technical assistance and fiscal incentives to develop the industry.

c. Relationship With Other Elements

The linkages between Agro-Industry development and the AID program elements are both direct and through the sector plan-

ning system. Most Agro-Industry development should be the responsibility of the private sector; but it needs the stimulus of such activities as new crop development, export promotion, feasibility studies done by the Agricultural Economics Center, and marketing improvements. For public venture investments will operate through the Sector Planning and Policy System, which will also provide regulatory and overall policy direction to private industry. The products of diversified and intensified farming operations will provide the raw materials for agro-industry, while agro-industry simultaneously provides the necessary markets and demand for these products. Finally, agro-industry will also be a source of employment generation.

C. Urban Sector

Urban and regional Development is rapidly now being defined in Costa Rica as a "sector" or functional area requiring government attention. This has been prompted by an analysis of recent migration trends, land use patterns, and the proliferation of urban squatter areas and concentration of poverty in the Urban Agglomeration Area.

Until the early 1960's there had been a steady decrease in the percentage of the national population contained in the Central Valley and its Urban Agglomeration, with a corresponding increase in the rural periphery of Costa Rica. ^{1/} This trend has now been reversed with the Urban Agglomeration and Central Valley experiencing the highest population growth rates, 4.10% and 3.82% respectively, compared to 3.33% nationally for the 1953-1963 period. This accelerated growth, caused primarily by outmigration from other areas (principally, the North Pacific and Central Pacific Regions and the "water ring" of the Central Valley), has resulted in a growing concentration of population in the Urban Agglomeration. The primary causes of such migration are the increasingly capital intensive agricultural practices in the peripheral regions, insufficient off-farm and other secondary and tertiary employment opportunities in towns and secondary cities, insufficient agricultural opportunities for displaced farmers, and the presence of amenities in the San José area.

1/ The Area Handbook for Costa Rica (San José, 1963), this historical migration outward from the Meseta Central (p. 47), as evidenced by data showing nearly 87 percent of the population in the Meseta Central during the mid-19th century and 55 percent in 1963.

The influx of displaced rural workers and natural population growth in the San José Metropolitan Area are now severely challenging the city's ability to provide adequate housing, schooling, and employment opportunities. The proliferation of slums and squatter areas, particularly in the northern part of the city are manifestations of this problem.

The MCF is now moving toward developing new policies and programs for this sector. With respect to population growth and poverty concentration in the San José Metropolitan Area, the MCF is attempting to alleviate the conditions of the poor in urban centers, providing a more rational and comprehensive approach to the problems of urban poverty and slum eradication. USAID is assisting in this effort through the Urban III-IV Urban Sector Assessment which is addressing the problems of the Urban Agglomeration and planning a complex operational program for improving economic and living conditions for the urban poor of the San José Metropolitan Area. The Urban Sector Assessment will provide a comprehensive analysis of the socio-economic, demographic and causes of poverty in the metropolitan area, as well as a detailed analysis of urban problems and proposed solutions. The PR 1976 Urban Environment Project will draw considerably upon the results of the Assessment as well as other analyses now being conducted specifically for the design of the Program.

While the MCF is cognizant that the greatest concentration of population and poverty exist in the Urban Agglomeration of the Central Valley and therefore require attention, it also wants to stimulate growth in selected agricultural regions in order to achieve a better regional balance. To achieve this, the MCF in late 1976 secured the formation of an Urban and Regional Development Planning System to be controlled by the National Council for Urban and Regional Policy, represented by the local, national, public and semi-autonomous development agencies. The secretariat of this council is the Regional and Urban Development Institute (CUIPLAN), which is advised by a technical committee composed of representatives of the Ministry of the Presidency, MCF, and IICA. The principal functions of the Urban and Regional Development Planning System are: (1) to recommend policy and strategies for regional development; (2) to prepare regional development plans; (3) to coordinate public and private institutional resources for regional development, particularly with respect to establishment of regional offices and administrative decentralization; and (4) to promote the establishment of regional and local level planning councils and advise them in their operations.

Six development regions have been established for planning purposes, these are the Central, North Pacific, Central Pacific, South Pacific, North, and Atlantic Regions. Under the Urban and Regional Planning System, each region will have Regional and Local Councils charged with responsibilities to develop development policies and objectives, and to promote, monitor, and evaluate development programs in the region. Regional Councils are composed of Municipal Council Presidents from each canton in the region, representatives from each of the major public and semi-autonomous agencies, the head of the Integrated Office of Coordination, and representatives of local civic, professional, and other public agencies and organizations.

Regional plans will be developed prior to inclusion in the National Development Plan and presentation to the National Policy Council. With the establishment of Regional Councils, OFIPLAN must establish Integrated Offices of Coordination which will act as the executive arms of each Regional Council.

The GOCHR has selected the Atlantic and Northern Regions as priority development areas for initiating and testing the Urban and Regional Development Planning System. The planning process should be fully underway in at least one region (Atlantic) by mid-1977 and another (North) by 1978. Other regions will be fully incorporated in the 1979-82 period.

USAID intends to assist the GOCHR in developing policies, strategies, and programs conducive to achieving both orderly but not accelerated growth of the Urban Agglomerations as well as stimulating growth of secondary cities and towns. In this context AID's particular focus will be expansion of urban employment opportunities for the poor.

A first effort to develop such a strategy and test it through a limited program application in one Urban Agglomeration will be undertaken in the FY 1977 Urban Survey Assessment and the FY 1978 Urban Environment Program. While these actions will provide an initial response to a complex problem, it is expected that the Urban Assessment and subsequent implementation of the Urban Environment Project will identify additional policy and program issues requiring further attention, e.g., income distribution programs, credit policies, export/domestic market potentials, urban service policies/procedures, etc.

With respect to the GOCHR regional development strategy, USAID intends to provide technical assistance and limited capital assistance where necessary, for the development of secondary cities

as rural service centers and sources of secondary and tertiary employment opportunities related to a predominantly agricultural economy. While it is impossible to define project activities precisely at this time, it is expected that beginning in FY 1981 AID will support the development of an integrated regional development program strategy for identifying the poverty group in a specific secondary city and surrounding rural area which it serves and stimulating the growth of urban employment opportunities within that region -- an approach similar to that which will be tested in the Urban Agglomeration in FY 1979. The Urban Sector Assessment now being conducted for the Urban Agglomeration as well as an IFF-supported migration study to be implemented in 1979 and 1980 may also suggest other problems appropriate for technical assistance.

D. Population Program

During the last 15 years, Costa Rica has experienced a demographic transition comparable to only two other countries of the world, Singapore and Taiwan. This transition is even more remarkable in light of the significant differences between these countries and Costa Rica. Taiwan has had a national family planning program since the 1960's and Singapore is a city-state without a dispersed rural population. Also, unlike Asian fertility declines in which older women led the transition to having fewer children, the younger women are leading it in Costa Rica.

The Crude Birth Rate (CBR) in Costa Rica has fallen from 47.5 in 1960 to 28.3 in 1978. The Total Fertility Rate (TFR) fell from 5.0 to 3.2 during the same period. The Rate of Natural Increase has fallen from one of the highest in the world in 1960 to a presently estimated 0.8%.

The present National Family Planning and Sex Education Program is implemented by a number of separate organizations all of which are members of the National Coordinating Committee for Population and Sex Education (CONAPO). The member organizations of CONAPO meet periodically to coordinate their activities, although CONAPO does not have legal status and membership is on a voluntary basis.

Family planning services are provided through health facilities run by the Ministry of Health (M) in the rural areas and the Social Security Institute (CASS) in the urban areas. The Costa Rican Demographic Association (ADC) provides all of the contraceptive commodities to the program. The M depends entirely upon the ADC to provide it with contraceptives, while the CASS does purchase some of its supplies using ADC as a purchasing agent.

In addition to its role as contraceptive provider, the ADC conducts courses in responsible parenthood and sex education for the public as do both the Center for Family Integration (CIF) and the Center for Family Orientation (COF). It also collects and analyses service statistics through its data center SIDESCO. The ADC is the most influential member of CONAPO and usually takes the lead in the family planning program.

The program regressions mentioned in Section III.D. might be only temporary in nature and perhaps with time will be overcome. Another potential setback, which if carried out could be far more damaging to the overall program is the closing of CIF.

CIF is a Catholic organization sponsored by the Christian Family Movement. The Catholic Church of Costa Rica requires each couple planning to marry in the church to attend pre-marital courses given by CIF. These courses discuss responsible parenthood and emphasize the church's views concerning family planning methodology. Emphasis is on natural methods of contraception; however, other methods are discussed. CIF thus generates many of the clients for the family planning program.

It has been learned that the majority of the Council of Bishops has ordered CIF to close. If this happens, it could be interpreted as a withdrawal of support for family planning by the Church. It most likely would be explained by opponents of family planning and could be very damaging to the entire program in this Catholic country. CIF has requested a review of this order, and it may be modified or rescinded.

As part of the United Nations Fund for Population Activities (UNFPA) grant to CONAPO, an evaluation of the program is required. ADC is in the process of organizing this evaluation.

In light of the aforementioned regressions and USAID/Costa Rica's previous anticipation of continued success without its assistance beyond FY 1979, it is felt that an evaluation is much needed.

We appreciate requests for technical assistance in carrying out the evaluation and propose that we stand ready to assist those areas that will provide us with the information we need to decide what, if any, assistance we will provide beyond FY 1979 for the purpose of reinvigorating this program, which, until recently, had been considered exemplary in many respects.

On a related matter, an in-depth study of the inter-relationship of fertility behavior will provide us with the factual information needed to demonstrate how our assistance and UNFPA, IDU, and programs in other areas of social and economic development have had an impact in reducing population growth rates. In relation to the new Section 117 of the Foreign Assistance Act.

E. Other Donors

While assistance from A.I.D. may be expected to decline after the next few years, the overall demand for external aid will probably rise as Costa Rica moves into infrastructure projects of increasing scope and cost, and as the improved credit rating of "middle-income" status is translated into increased loan flows from international agencies and other countries.

In the interest of coordinating all external aid, the Ministry of the Presidency has created a new office whose function is to review all assistance proposals for consistency with the GOCP's plans and to avoid duplication of facilities. This office is probably the logical seat for further coordination of aid, especially as new assistance sources appear. The most recent new source, for example, is IFB, which has authorized a \$100 million, 10 years grace, 1% interest line of credit up to \$5 million per Costa Rica during 1987 to be used as local counterpart against other foreign credits (IBRD, ERM/Japan, FID, Panama) in approved infrastructure projects. Whether further formal coordination is necessary and -- considering the diversity of sources -- desirable, will be a question of continuing interest.

Apart from A.I.D., a number of other U.S. agencies and institutions deal with Costa Rica. Our strategy program will promote more such interaction as steps towards a relationship based on trade and investment. The new involvement of U.S. universities and the National Academy of Sciences with UNICOST; the increased activities of private voluntary agencies; and the Housing Investment Guaranteed program to be applied to urban renovation will be some of the most visible U.S. assistance initiatives, complementing IFB, FID, trade concessions, and our multi-national companies.

In addition to the IFB and FID lines of incentives for business, we will explore possible linkages between U.S. and Costa Rican enterprise through the sharing of commercial technology. This may be an area of great promise but it is also, understandably, an area where strong individual and corporate interests will be at stake. Our investigations in this field, if successful, may be directly transferable to other middle-income nations.