

**AGENCY FOR
INTERNATIONAL
DEVELOPMENT**



**COUNTRY DEVELOPMENT
STRATEGY STATEMENT**

FY 1981

COSTA RICA

**DEPARTMENT
OF
STATE**

January 1979



USAID/COSTA RICA

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY1981-85

January, 1979

CONTENTS

	<u>Page</u>
I. ANALYSIS	1
A. Costa Rica's Development Performance	1
1. Progress and Commitment	1
2. Characteristics and Causes of Poverty	5
B. Costa Rica's Development Plan	19
II. AID ASSISTANCE STRATEGY	25
A. Objectives	25
B. Strategy	27
III. ASSISTANCE PLANNING LEVEL	35
ANNEX A Geographic Distribution of Rural Poverty	43

"In distributing the scarce resources of our foreign assistance programs, we will demonstrate that our deepest affinities are with nations which commit themselves to a democratic path to development."

- President Carter

PART I ANALYSIS

A. Costa Rica's Development Performance

1. Progress and Commitment

Costa Rica was once described as the "poorest and most miserable Province of America." It is now described as the Switzerland of America. This flattering comparison results not only from the country's natural beauty; also admired is its long-standing commitment to participatory democracy and human rights as well as the impressive economic progress that has been accomplished from impoverished beginnings.

These achievements have not come easily nor are future successes assured. The nation of Costa Rica began as an equitable society; this characteristic has since been partially lost but remains a realizable national goal. In the beginning, equity was imposed by circumstance: life was so hard in the small isolated colony that everyone had to provide for his own subsistence needs. There was no upper economic class. This egalitarianism extended into social and political relations. However, the introduction of coffee production, which changed the agricultural economy from one of subsistence to one of export and stimulated migration outward from the Central Meseta, resulted in the growth of a powerful oligarchy and an unequal distribution of income. Today, Costa Rica's national income is neither more nor less equitably distributed than those of other Latin American countries. But a basic regard for equity has persisted, as illustrated by Costa Rica's early introduction of social programs. For

instance, an educational policy emphasizing primary and secondary schooling, at the expense of higher education -- the university was actually closed down -- reduced the illiteracy rate to about 25% by 1927. The Social Security system was created in the early 1940's. Concern for equity is also demonstrated by the responses to the crises of the Depression and World War II. The conflicts which grew out of high unemployment and an economy by then narrowly oriented toward the interests of coffee growers were resolved through reform, economic controls and finally the Revolution of 1948, which became a watershed in Costa Rican history. The revolution was not bloody by other nations' standards but it brought about a series of structural changes in the economy and in politics that laid the basis for subsequent development. The abolition of a standing army, a major increase in the role of the State, and extension of political democracy to women, blacks and people without property were among the most important of these changes.

The modern era thus began with certain strengths and weaknesses: a firm belief in equitable socio-economic relationships (if not always practiced unequivocally); a strong social welfare orientation encompassing education, health and pension programs; political democracy and a reform-minded State; and an economy heavily dependent on export of tropical agricultural products, mainly coffee and bananas. In 1950, industrial capacity was virtually non-existent. The country remained primarily agrarian, with the population of less than 900,000 people living mainly on farms or in small towns. The entire San José Metropolitan Area contained only 90,000 people.

Since 1950 Costa Rica's growth has been impressive: GNP in real terms grew an average of 6% per annum. With population growth averaging 3.5% a year, per capita GNP growth was about 2.5% annually.

Most of the decade of the 1950's was characterized by high prices for primary agricultural crops -- coffee and bananas -- allowing Costa Rica to more than double the value of its exports and therefore to expand public sector investments in infrastructure and social programs.

A drop in coffee prices which began in the late 1950's and reached a low point in 1963 forced Costa Rica to do three things, all with reasonable success: it increased banana production, intensified coffee cultivation and increased manufacturing. A priority of the GOCR was to diversify the economy and reduce its dependence on agricultural exports. Entry into the Central American Common Market (CACM) in 1964 assisted this effort. Significant growth in the manufacturing sector resulted, with the CACM the destination for much of the increased output. Exports of industrial products grew from 3% of total exports in 1960-61 to 23% in 1969-70, and to 30% by the mid-1970's. Manufacturing as a percentage of GNP grew from 13% in 1950 to 20% in 1976, equaling in that year the once-dominant agriculture sector which had made up 41% of GNP in 1950. In the same period, however, employment in manufacturing increased from 11% to only 14%, while agricultural employment decreased from 55% to 37%. The public sector picked up the slack, in 1976 employing 15% of all those employed compared to 2% in 1950.

The late 1960's also saw the start of attempts to diversify agricultural export crops beyond the mainstays of coffee and bananas. Sugar and meat exports as a percent of total agricultural exports increased from 11% in 1965 to 25% in 1975.

Meanwhile, public sector expenditures for both infrastructure and social programs were expanding at a rate one-third faster than GDP. This had important effects on follow-on private sector investment, internal demand and economic stability. An increasing share of investment was financed by foreign capital transfers. While gross domestic investment increased from 19% in 1960 to more than 25% in the mid-1970's, domestic savings as a percent of total investment decreased from 74% in 1963 to 49% in 1975.

Politically, Costa Rica sustained and solidified its commitment to participatory democracy. There have been no Constitutional challenges since 1948 and conflicts have been resolved through effective party politics, an active legislature, a strong executive, and an impartial court system.

The changes in the economy and society since 1950 have been such that a major demographic change has resulted -- the population growth rate dropped from 3.5% in 1955 to 2.3% in 1973. However, because of the general increase in the female population in their reproductive years and a decline in the crude death rate, the population growth rate had inched back up to 2.6% by 1977.

Costa Rica's economic growth since 1950 has been spurred by two basic strategies. One was to expand the production of traditional agricultural

crops by bringing new lands under cultivation. The other sought to bring about import substitution through an industrialization program first oriented to the domestic market and later to the member countries of the CACM. These growth strategies were followed by many developing countries in the period and were supported by international donors. In the case of Costa Rica, they were successful in bringing rapid growth. Now, however, both the strategies are producing diminishing returns; moreover, the very growth they stimulated has caused problems which Costa Rica will have to deal with if it is to continue its development progress. These will be discussed in the next section.

2. Characteristics and Causes of Poverty

The progress Costa Rica has made in recent years had led to a substantial decline in the number of poor people. It has also led to a worsening relative position for the poorest decile of the population. These conclusions are illustrated by the accompanying table which shows income distribution in shares and real dollar value for the years 1961 and 1971 (the most recent data available). The average per capita income figures were obtained by applying the family income distribution data to Central Bank national income accounts adjusted to constant 1969 prices, using the official exchange rates for 1961 and 1971. Constant family size was assumed. However faulty, they show that 38% of the population was below the AID poverty benchmark (\$150 in 1969 prices) in 1961 and 18% was below it in 1971. Because of the temporary slowdown in the rate of growth in 1974-75 due to oil price increases and the higher rate of inflation

Costa Rica has experience in the 1970's, we doubt that there has been any significant change in the size or relative position of the poverty group since 1971. In fact, we suspect that 18% is too low (the assumption of constant family size leads, of course, to an underestimation of poverty). As will be seen later, substantial data exist which indicate that a very conservative definition of poverty would include 23% of the population. Nevertheless, clearly there has been a significant reduction in the poverty group in Costa Rica; we attribute this to the country's serious and successful development efforts. The issue for the future is whether the poverty group will remain as small as it is now.

Per Capita Income and Family Income Distribution,
1961 and 1971 (Constant 1969 Prices)

<u>Decile</u>	<u>Family Income</u>		<u>Average Per Capita</u>	
	<u>Distribution</u>		<u>Income</u>	
	<u>1961</u>	<u>1971</u>	<u>1961</u>	<u>1971</u>
	<u>%</u>	<u>%</u>	<u>\$</u>	<u>\$</u>
Poorest 0 - 10	2.6	2.1	102	103
10 - 20	3.1	3.3	121	161
20 - 30	3.3	4.2	129	205
30 - 40	4.0	5.1	156	249
40 - 50	4.8	6.2	187	303
56 - 60	5.9	7.5	231	367
60 - 70	7.6	9.3	298	455
70 - 80	10.1	11.7	395	572
80 - 90	14.6	16.2	571	792
Richest 90 - 100	44.0	34.4	1,723	1,681

Source: 1961: United Nations Economic Commission for Latin America, Economic Survey of Latin America, 1968, July 1969.

1971: Victor Hugo Céspedes S., Costa Rica: La Distribución del Ingreso y el Consumo de Algunos Alimentos, Universidad de Costa Rica, Serie Economía y Estadística, N° 45, 1973.

Central Bank National Income Accounts.

Data we have on the characteristics of poverty are primarily from the 1973 census. These figures were used by the Academia de Centro América to prepare typologies of rural and urban poverty and by the U.S. PVO Acción Internacional Técnica (AITEC) and the Institute of Municipal Development (IFAM) to analyze the geographic distribution of poverty. A survey of urban poverty in the San José Metropolitan Area done in 1976 for the USAID's urban assessment also used census data. Because the latter has been extensively reported to AID/W in connection with our FY1978 Urban Loan and because it uses a methodology different from those of the Academia study we will not discuss it further.

The basic data and at least one of the analyses have weaknesses which require treating the conclusions with some skepticism. The Academia study, in particular, while the most comprehensive, suffers from errors made in the computer programming process, which forced the authors to express many of their conclusions in ordinal terms. However, these numbers are the best we have and allow us both to describe the country's poorest members in approximate terms and to locate them geographically.

The Academia study used five different definitions of poverty, varying the exchange rate used to convert colones into dollars and the income computation (values such as land and imputed rent were included in some cases and omitted in others). The different definitions produced percentages of Costa Ricans living below AID's poverty benchmark (\$150 in 1969 prices) ranging from 23% to 51.4%. In past documents the Mission has used a definition of poverty which included landowners with up to 20

hectares of land if their income was less than \$150 per family member. This definition also favored "moderate" methods of conversion and deflation -- i.e., a mixed exchange rate of 7.59 colones per U.S.\$1 and the mid-1973 consumer price index. The result showed 41.7% of the population below the AID poverty benchmark.

Field observation in Costa Rica as well as belief that 20 hectares is too liberal have made us decide to use what is called Methodology II in the Academia study. The figures in it are converted at the official (overvalued) exchange rate of 6.75 colones per U.S.\$1, and deflated by the 1972 consumer price index. Any family owning 5 hectares of grain-producing land or 10 hectares of any kind of land is excluded from the poverty group. This definition, the most conservative of the five used in the study, indicates that 23% of all families are below the poverty line. We cannot fully explain the difference between this percentage and that used by Céspedes (18%); perhaps the difference results from a systematic under-reporting of income in the 1973 census or use of different exchange rates and deflators. The variations do demonstrate, however, that quantifying poverty is complicated.

Using this conservative definition of poverty, we find that three-fourths of all of those below the poverty level live in rural areas. Of these rural poor, almost 55% are landless. This has major programmatic implications for the GOCR and the Mission. Although the percentage of poor people constitutes only 23% of the total population this proportion climbs to 29% for rural dwellers and 34% for landless rural dwellers.

Urban poor make up only 14% of urban dwellers even though 25% of all poor live in urban areas. San José has the largest number of urban poor -- almost half of the total -- but it has the lowest concentration of urban poverty. Puntarenas and Limón -- the two port cities -- have the highest concentrations.

Because of the programming errors and the various methodologies used to quantify poverty, the authors of the Academia study developed descriptions of poverty which are sufficiently general to overcome these weaknesses:

- Poor families are larger than nonpoor families;
- Poor mothers have a higher fertility rate than nonpoor mothers;
- The dependency ratio (members under 15 and over 64 as proportion of total family size) of poor families is twice that of nonpoor families;
- The economically-active in nonpoor families exceed the economically-active in poor families by 37%;
- Among those economically-active, the poor are unemployed 3 1/2 times more often than the nonpoor and they seek work for the first time without finding it more often than those who are not poor;
- The illiteracy rate is 66% greater for the poor than for the nonpoor; and the poor have fewer years of schooling;

- The poor have bad housing more often than the nonpoor and also live in much more crowded conditions;
- The poor have less access than those who are not poor to such services as potable water, electricity, and sewerage.

Comparing urban and rural poverty, we find that the urban poor occupy an intermediate position between the rural poor and the nonpoor urban dweller. By living in the city, the poor appear to better their standard of living, and adopt personal or family behavior which itself helps them to achieve a better life. For example, urban poor families are smaller and have a lower fertility rate than rural poor families, although compared to nonpoor urban families these rates are high. The same pattern is found with the dependency index, the rate of illiteracy, the amount of schooling, and access to services. The pattern differs with respect to employment and housing. The urban poor have the lowest labor force participation, but are unemployed less frequently than the rural poor. They also search for work the first time without finding it in far greater numbers than any other group. The service sector provides the most likely source of work for them. While the housing available to the poor living in urban areas is less crowded than rural housing, it is generally of poorer quality. Thus the emphasis on employment and housing in the Mission's FY1978 Urban Environment and Community Improvement Loan is clearly correct.

The Academia authors were reluctant to extrapolate too much from their data on rural poverty because it was in this area that the programming errors occurred. However, they were able to form the following conclusions with confidence:

- The landless have families slightly larger than poor farm families but considerably smaller than nonpoor rural families;
- The landless have the highest dependency ratios and unemployment rates of any group;
- There are no differences among the rural poor regarding literacy and school attendance and very little difference with respect to labor force participation, finding work for the first time and housing conditions; in these indicators the major difference is between those who live in urban areas and those who live in rural areas.

These findings are not in the least surprising. Many of them describe a syndrome of poverty from which it is difficult to break out. It is also difficult to break into because the causes have not been and cannot be specified with the available data. Further, it is hard to design developmental, as opposed to social welfare, solutions by describing poverty as an individual or family characteristic. Development efforts are better focused by analyzing poverty in geographic terms more precise than rural versus urban and landless versus landed. For this reason, we turn next to the study published by AITEC and IFAM in 1976 which presents a variety of development-related data from the 1973 census and the results of a special survey covering the five rural regions of Costa Rica. A summary of these data is attached as Annex A.

Those data show that much of Costa Rica's progress has been concentrated in the urban agglomeration around San José and that there are serious development challenges to overcome in the rural hinterland.

It is not possible to neatly rank the five regions in terms of either poverty or potential. The data show some unexpected although explainable combinations of characteristics: for instance, one finds high wages combined with high unemployment and underemployment in the Atlantic Basin Region but in the South Pacific Region high wages are found along with relatively low unemployment and underemployment. In the former case, the inflow of large numbers of workers in search of good jobs appears to have caused the labor supply to exceed the available supply of jobs. The latter region, previously an area of in-migration but now losing population, appears to have reached a better balance between labor supply and demand.

Similarly, household amenities (water supply, electricity and sanitary service) are best in the two regions which are farthest apart in terms of income levels of their citizens. While amenities would be expected to correlate positively with income, as is the case in the Atlantic Basin, the correlation in the Peripheral Inter-Mountain Valley may be with that region's status as a long-settle area relatively near San José. The reader may note other such relationships in the table accompanying the annex.

The general picture one gets from the AITEC/IFAM study, and from personal travel, is a rural Costa Rica which is tremendously diverse for such a small country and which presents "development" and the lack of it in all its complexity. There are not enough roads or public transportation services. In the total area studied some 25% of communities have no public transport at all. About 25% of the houses in most regions have no sanitary service and 30% have no water. With the exception of the Atlantic Basin, where the figure is 25%, between 49% and 63% of paid workers earn less than \$600 a year in 1973 prices (\$420 in 1969 prices). Between 15% and 23% of the population six years or older in these five rural regions have had no schooling at all and only about 10% have gone (or are going) beyond primary school.

Three of the five rural regions are losing population. The lack of employment opportunities appears to be the major factor in people's decisions to move. Fewer jobs in turn are the result of changes in economic activity, particularly in agriculture. While the area under production in the five rural regions increased by almost 60% between 1955 and 1973, the area in pasture increased from 39% to 50% of the total in the same years. With the exception of the Northern Plains, which is still being colonized, the two regions with the greatest out-migration were also the regions with the greatest proportion of land in pasture.

Some of the distinguishing features of each region and resulting opportunities for future development are included in Annex A.

What has caused this poverty? The question is more easily asked than answered. It is not as if people were once well-off and now find themselves poor. While the Academia study avoided making causal inferences, there is no doubt that the various characteristics associated with poverty also act as reinforcers of that condition. If a person has little education or is illiterate he is more apt to be unemployed or under-employed, unless he owns his own land. If he does own his own land, he is likely not to be very productive with the result that his income will be low. Coming from a poor family is apt to have prevented him from getting the schooling needed to allow him now to earn a good living so his own children can get a good education. These "causes" of poverty are at the individual level, although with sufficient resources the State might have been able to break the syndrome at key points -- for all people. Costa Rica has done this for large numbers of its people, through its public school system, agricultural development policies, colonization programs, as well as by creating jobs for those without land.

Has Costa Rica done enough and can it sustain its past efforts? For answers we must look at the development process itself and also at Costa Rica's situation in the world. As already indicated, the country has pursued well-known growth strategies to achieve its current middle-income status: land-extensive agricultural development and import-substitution industrialization. Perhaps there was no choice; certainly much good came from them. However, these strategies have left a legacy which will make future progress harder to achieve, and both have reached

the point of diminishing returns. There are no choice agricultural lands still uncultivated; prices for traditional export crops will continue to be unstable. Land expansion has worsened tenure patterns, because much of the land has gone into cattle production under the control of a few landowners. Increases in banana and sugar cultivation have had the same effect. The result has been an increase in landless labor and migration to urban areas. For the first time in Costa Rica's history migration patterns changed direction: the flow of people from the Meseta Central outward reversed itself. Much of the land expansion resulted in indiscriminate forest destruction, setting off a chain of environmental problems which is ominous for the future.

Import substitution catered to the demands of a growing middle class -- whose growth itself was spurred by the strategy. One result is an industrial sector that is not as efficient as it could be and which depends heavily on imported materials to produce consumer goods. Another is a population -- particularly in urban areas -- accustomed to a high standard of living. The possibilities for further easy import substitution in both Costa Rica and Central America are limited and in any case this strategy has fallen short of expectations as a means for promoting sustained growth.

The two growth strategies were accompanied by policies thought to be appropriate at the time, such as credit subsidies and tax breaks. They encouraged production that was more capital intensive than it would have been in their absence. Certain labor policies -- minimum wage laws

and payroll taxes to pay for social programs such as those of the Social Security System and the Family Assistance and Social Development Program -- have also discouraged greater labor utilization, because they increase the cost of labor.

Capital-intensive and land-extensive production methods created new wealth but may also have worsened income distribution. Thus they can be considered causes of poverty, having contributed to inequities which now must be overcome and because of their influence on future directions of aggregate economic growth.

Costa Rica's past high population growth rate, at one time as high as 4.0% annually, is also a cause of poverty. The result is a large number of young people seeking jobs and a large number of women now in the child-bearing years, problems which will have to be dealt with in the 1980's.

Several other by-products of the development which occurred in the past 25 years now constitute obstacles to further progress. The first is the concentration of industry, government services and investment in infrastructure on the Central Meseta. While the majority of the population lives here, meaning that government investment probably has not been skewed inequitably, greater potential for future growth is to be found in the outlying areas.

The rapid growth of the public sector is another potential obstacle; many people have begun to expect the government to solve most of their problems. While government as the lead sector in development

may be difficult to avoid, it has contributed to a low domestic savings rate, an industrial sector with much foreign ownership and a centralized and large government bureaucracy. As will be seen in Section B, the Government is adopting a variety of measures to deal with its own paternalism as well as with the other causes of poverty outlined above.

One might ask why Costa Rica -- which has invested such substantial efforts in broad-based development -- continues to pursue seemingly contradictory policies; for instance, those that discourage labor-intensive production techniques. There are three basic explanations for this. The first is that the general state of knowledge about the development process has not allowed anyone a priori to predict and plan against negative side effects. It is usually only after these side effects are evident that their origins become understood.

Secondly, some policies and programs inevitably have both positive and negative effects and are pursued because the former outweigh the latter. A case in point is the impact of minimum wage laws and taxes for social programs on the manager who has to decide whether to hire more people or buy a labor-saving machine.

The third reason is Costa Rica's status as a democracy. Like all democracies, it cannot easily carry out policies and programs which negatively affect those who are most influential. The disadvantages which come from being a democracy must, of course, be compared to its advantages; e.g., stability and broad participation in the benefits of growth. In fact, Costa Rica's progress to date and its potential as a

model for the future derive from its democratic values and practices.

Poverty is also exacerbated by Costa Rica's vulnerability to external events. In many respects the country has been fortunate in recent years. High prices, particularly for coffee, minimized the effects of the 1973-74 world economic crisis. Now, however, coffee prices are down and oil prices have again risen. Domestic inflation is rising and so are the costs of Costa Rica's substantial import bill. This bill must be paid or people will be put out of work. In recent years, foreign borrowing has enabled the country to smooth out the impact of fluctuating prices for exports and to maintain a strong program of industrial development. However, the debt burden is now at the IMF's "cautionary" level, the government has undertaken a large if only partial refinancing and must borrow to meet current expenditures. Foreign loans are offered on increasingly harder terms. These are all clear indications that an austerity program has to be adopted; in fact one was put into effect on January 5, 1979. In announcing his program the President explicitly stated that he would not order a devaluation of the colón at this time. There are also indications that the Government, in seeking greater efficiency, is loosening a variety of controls on the economy to let market forces have stronger allocative powers.

Costa Rica's substantial social service program is also worrisome. It is too expensive, given Costa Rica's productive capacity, and its costs are increasing. The various programs either must be cut back, made more efficient or paid for through increased productivity in agriculture and industry.

Costa Rica leaders are well aware of their country's vulnerability. The new development plan, to be discussed in the next section, aims at reducing it. But there is a sense here of being unable to adequately control some events crucial to national well-being. This is felt generally about international economic events but is particularly the case with respect to events in neighboring Nicaragua. What is happening there has had a negative impact and could have serious economic consequences for Costa Rica.

The modus operandi of the Costa Rican Government under these conditions is apt to be one of planning for the worst. On the one hand, the Government will pursue solid development programs aimed at increasing productivity, diversifying exports and seeking new markets beyond the CACM. Existing conditions will also strengthen the Government's commitment to democracy and human rights at home and in international fora. On the other hand, they will lead to reduced public sector investment and perhaps to reduced social services. Whether government investment or social services are reduced, the poor will be hurt the most.

B. Costa Rica's Development Plan

Costa Rica's 1979-82 development plan is presently being revised. The following analysis is based on a partial and preliminary version which is now being debated within the GOCR.

The plan has been designed to overcome four major socio-economic problems facing the country, the GOCR's description of which is summarized below:

1. Inadequate productive structure based on a few agricultural export crops (characterized by instable prices over which Costa Rica has no control) and on capital intensive industry relying excessively on imported techniques and components;
2. Large numbers of both individuals and entire communities who have not shared in the development which has been achieved;
3. Utilization of both natural and human resources which has been either insufficient or wasteful;
4. A public sector lacking proper coordination between institutions, is too centralized, too reliant on fiscal deficits rather than effective and sufficient taxation, and not as efficient and effective as it needs to be.

The fundamental objective of the plan, as stated in the draft document, is "the full and integral realization of each individual's worth and social harmony among individuals on the basis of the common good, popular participation and personal effort." To accomplish this objective a series of more specific objectives are presented:

Permanent socio-economic improvement of the least-favored economic groups based on the provision of more and better social services and assured access to them and on public participation in the allocation of both social services and factors of production. To accomplish this objective the Plan calls for:

- Social programs which lead to guaranteed access for all Costa Ricans to their minimum needs for employment, food, health care,

housing and education. This in turn requires that economic and public sector activity be decentralized; and

- Participatory forms of production and consumption through encouragement of cooperatives and similar associations.

Maintain and strengthen democratic principles through active popular participation which will require:

- An increase in responsible public participation in such groups as unions, community and municipal associations and other similar groups, including those organized for productive effort;
- Consolidation of respect for the law, individual and collective liberty and human rights; and
- Strengthened and improved peace and security for the family, dignity for the individual and well-being for all.

Promote a structure of production which is adequate for the integral development of the Costa Rican people which will require:

- Reducing the economy's vulnerability by:
 - increasing exports primarily through new products and markets;
 - integrating the nation's productive sectors in order to increase domestic value added;
 - reducing dependence on imported materials and components; and
 - increasing domestic savings and bringing the external debt under control;

-- Changing the structure of consumption by:

- redistributing income through policies dealing with taxes, access to credit, technical assistance, technology, education and training, restructuring of agricultural production and land tenure and the promotion of communal business groups; and
- modifying consumer behavior through educational campaigns which discourage conspicuous consumption, particularly of imported goods;

-- Modifying the science and technology system so that it builds upon the productive resources of the country and supports the social and economic objectives of the population; and

-- Increasing production and improving productivity by:

- developing a socially responsible management mentality;
- improving technologies and using existing plant capacity more efficiently; and
- giving priority to strategic sectors and sub-sectors, carefully selecting which of these will receive public subsidies by employing land use maps and other such means.

Utilize better the country's human resources through full employment in freely chosen work in which the individual, and therefore the family and community, participates actively in both the productive process and the distribution of benefits from it. To achieve this objective it will be necessary to:

- Prepare people, particularly through better technical education, to carry out productive activities;
- Promote better utilization of the country's human resources, providing incentives to those activities with greatest impact on employment;
- Improve conditions in the job market, assuring a minimum income and improving social legislation;
- Promote forms of social organization which permit greater access to factors of production and to the fruits of economic growth;
- Improve the institutional capacity to find and implement solutions to the problems of unemployment and underemployment; and
- Formulate and evaluate employment policies using sound information.

Order and rationalize the exploitation of natural resources, balancing the needs of national development and the preservation of the environment, by:

- Substantially improving knowledge of the country's natural resources;
- Actively promoting their better use and distribution; and
- Protecting the environment; and finally

To agree that the activities of the State fundamentally are for the purpose of achieving the common good and assisting in the integral development of the individual, toward which objective it will be necessary to:

- Reduce the paternalism of the State;
- Improve and modernize the delivery of public services, and
- Improve the state's financial and budget organization and mechanisms.

The plan outlined above shows the extent to which the GOCR is committed to growth with equity. Action has already been taken to revitalize local government and participatory organizations and to adjust fiscal and economic policies to get a better grip on the economy, particularly to lower inflation and improve performance in the agriculture sector. However, the country is facing a period of austerity which will mean that there will be less money for carrying out activities under the new Plan. The financial information which normally accompanies the Plan document is not yet available and we suspect that the delay is caused precisely because the Government is grappling with the new austerity program it put into effect on January 5, 1979.

The absence of this financial detail means that we cannot present it as proof that Costa Rica is pursuing development policies worthy of AID support. We are confident that were it available it would show that Costa Rica does not have sufficient resources to achieve the plan's objectives.

Costa Rica's resource planning must take into account declining coffee prices, a low domestic savings rate (13.9% in 1970-76) caused mainly by the consumption habits of a large middle class, the rising costs of its debt to private banks and the declining availability of conces-

sional assistance. It is faced with these hard facts at the same time that public borrowing is already financing 50% of current expenditures and the social programs which are now in effect are getting more expensive.

The Mission does not have complete data on other donor assistance to Costa Rica, particularly on future assistance. We can draw two conclusions from the data available: Costa Rica's debt servicing cost indeed has increased, as evident from the fact that private banks' share of the external public debt increased from 13% in 1970 to 34% in 1976. With the exception of the IDB, virtually all donors have been reducing their programs in Costa Rica so that, for instance, the aid level in 1978, excluding AID, was about \$111 million, whereas it was \$151 million in 1977, \$159 million in 1976 and \$141 million in 1975.

Both past performance and future needs would indicate that Costa Rica's absorptive capacity is clearly greater than the resources that will be available from either domestic or external sources.

PART II AID ASSISTANCE STRATEGY

A. Objectives

The purpose of our assistance to Costa Rica is to support the GOCR's commitment and serious efforts to achieve equitable development which will bring lasting improvement to the lives of Costa Rica's poorest citizens.

Our continuing assistance will demonstrate that the United States considers democratic values and respect for human rights as fundamental to the achievement of enduring and equitable economic development.

Implicit in this purpose is the idea that Costa Rica's political traditions and the nature of its economy and society make it a unique country. It is a place where interesting and useful development experimentation is possible, and the lessons learned here could prove to be of great value to other developing countries and to AID.

This purpose also recognizes that Costa Rica's achievements so far are not necessarily permanent and, indeed, the country is at a development stage about which not enough is known. Costa Rica cannot continue to deal with its poverty problems as it has in the past, through social services: it must build equity into the structure of economic growth more completely than it has been able to do up to now. This task is much harder than making transfer payments, and it will require making tough policy decisions and taking risks. Vested interests are more likely to oppose structural changes than they have basic welfare programs.

The Mission's program direction to accomplish this purpose reflects the GOCR plan presented in Part I.B. From it we have selected the following sub-set of objectives, consistent with AID's legislation and appropriate for a foreign donor:

1. Increase poor people's access to the factors of production;
2. Increase production and productivity in a manner consistent with objectives 1 and 3;
3. Reverse natural resources degradation; and
4. Decentralize development by promoting activities in lagging regions, in accordance with objective 2.

These four programmatic objectives support the Costa Ricans' determination to reduce their economic vulnerability and to extend economic as well as political democracy. The linchpin among these objectives is N^o 2, because only by concentrating on the productive sectors can Costa Rica's progress be made permanent.

B. Strategy

Costa Rica presents a challenge and an opportunity to the donor community because its development problems are complex and its capacity to deal with them is not yet fully established. On the other hand, Costa Rica's commitment is strong and its territory and population size are both small enough to permit comparatively easy measurement of results, yet diverse enough to allow a variety of approaches to development.

We believe this Mission can be instrumental in helping Costa Rica sustain and extend the progress achieved thus far and learn from this experience valuable lessons about the development process. For these reasons we propose a strategy which has as an essential feature a two-way flow of information and resources into and out of the country, in which Costa Rica is the test site for innovative development programming for middle-income countries and from which lessons learned are systematically disseminated outward. The flow of resources and information into Costa Rica would necessarily be of very high quality and would be specifically directed at the most vexing of the country's development problems. The Mission would become thoroughly knowledgeable about these problems in their Costa Rican context and also about sources of outside expertise which could be brought to bear on them.

The principle means to accomplish this strategy is a bilateral program of such size and terms as to encourage the GOCR to take risks. Its content will indeed be risky by being innovative and experimental. We wish to support the GOCR in confronting hard problems, ones they might be reluctant to tackle if domestic revenues were the sole source of funding or if foreign resources at market rates were to be predominately relied upon.

We propose that the bilateral program consist of a minimum of two new project loans each year, believing that project loans are the device most suited to the design of innovative solutions. To offset their administrative cost, and to make their size attractive enough to encourage risk-taking and large enough to achieve a demonstrable impact, we recommend that each of these loans normally be in the \$5 to \$10 million range. They should be accompanied by a small amount of grant funding for technical assistance, evaluation and dissemination activities beyond the capacity of the Mission staff.

Project loans and accompanying grant technical assistance consistent with the set of objectives selected for our attention in Part II.A. and which would offer a challenging and experimental portfolio are proposed in the following areas:

Increasing Access of Poor People to the Factors of Production, which will focus on the availability of land and capital; worker ownership of productive facilities; and job creation. Land settlement and titling activities will be supported as long as they are cost effective and con-

sistent with rational land use goals. On-farm projects will be included if they enable marginal farmers to increase their productivity through greater access to technology and other factors of production. We will assist in credit reform efforts. Industrial development will be supported in lagging rural areas or secondary cities when it emphasizes job creation or aims at ownership and operation by the workers involved. The Mission is particularly interested in continuing the experiment with worker ownership which we began in the FY78 Urban Loan and with which the Private Voluntary Organization called IDEAS, (under an AID/W grant) is also involved.

Restructuring of Production and Increasing Productivity, by helping Costa Rica increase its exports through agricultural diversification and development of its scientific and technological capacity. Agricultural diversification (fisheries; forest products; fruits; vegetables and spices) will be supported when it promotes exports and creates jobs, taking advantage of soils, climate and proximity to the U.S. and other markets. The same will be true of agro-industrial development. Whenever possible, activities will encourage worker ownership and be located in disadvantaged regions. Improved marketing and extension service as well as more jobs and foreign exchange will result from this activity.

Natural Resources. We expect our current remote sensing demonstration project as well as the information developed during the execution of our initial loan in natural resources conservation to unveil many promising opportunities for innovative environmental activities and generate a

whole range of subsequent GOCR programs in which AID and other donors can assist. The research and dissemination efforts of ASCONA (the Costa Rican Association of the Conservation of Nature), which we are supporting through a grant signed near the end of FY1978, also will stimulate public and institutional concern. The problems of deforestation, erosion and water and air pollution in Costa Rica and other countries are only beginning to be tackled. Our involvement in natural resources preservation is likely to continue for some time and is an area particularly suited for sharing experiences with other countries.

Decentralized Development to increase community-level participation in development planning and project execution as well as to counter the concentration of development on the Central Meseta. The GOCR plans to set up an integral rural development program focusing initially on the poorest cantons; it eventually wants to build a system which will combine bottom-up collaboration and coordination with top-down delivery of government services. This proposal resulted, at least in part, from the AID/AITEC OPG and merits our future support.

A larger regional effort would not necessarily take a bottom-up approach but would focus attention on both problems and opportunities in disadvantaged regions or sub-regions of the country. (See Annex A.) We see such activity as a follow-on to the proposed FY1980 Secondary Cities loan. It would strengthen regional planning and management capabilities in addition to creating jobs and production in lagging areas.

Part of the objective of directing resources away from the San José area is to support improvements in the efficiency and effectiveness of the Government.

Besides the loan-grant activities described above, the Mission proposes substantially increased involvement with local Private Voluntary Organizations (PVOs) through Operational Program Grants (OPGs) and with local public sector organizations through the Special Development Fund (SDF). The aim of both activities is to support the participation and decentralization goals of the GOCR and to experiment with new forms of organization for development. The SDF will focus on the poorest communities in the country and will shift its emphasis to small-scale productive projects from the current emphasis on infrastructure. The SDF will be an important device for AID/Peace Corps collaboration, although we will also encourage Peace Corps/Costa Rica to involve PCVs in AID-assisted projects wherever feasible.

The expanded OPG program will be used, in addition, to explore targets of opportunity beyond those in which we are involved with loans. While we are not ruling out OPGs with U.S.-based PVOs, emphasis will be on Costa Rica-based organizations, particularly those operating outside San José. We are currently collecting information on such groups. Our full PVO strategy will be sent to AID/W separately, since it will not be completed until after January 31, 1979.

The Mission plans to continue activity in the population area. However, because opinion is divided within the GOCR we are unable at this

time to specify our involvement. The GOOCR currently has a high level national committee debating the entire question of the Government's role in limiting fertility and the relationship of population growth and distribution to national development. Other than continuing our present project, encouraging a broad and sensible approach to the subject and making known our willingness to assist a Government-supported program in the future, we are in a holding pattern for the time being. We would hope to be able to support a multi-sectoral (104(d)) approach to fertility decline during the 1981-1985 period.

The Mission has considered whether to include Housing Investment Guaranties in its future program; we have decided we cannot accept the conclusion of the RHUDO shelter analysis that future HIGs may not be needed in Costa Rica. The FY1978 Urban Environment and Community Improvement Loan is a necessary beginning but is not sufficient in itself to institutionalize the changes which should be made in Costa Rica's approach to housing programs.

The primary purpose of the bilateral program described above is to channel resources, expertise and support toward the solution of Costa Rica's most serious development problems and to do so in such a way that experience can be pulled together and channelled outward. A solid bilateral program is essential to accomplish this purpose. But the bilateral program can be supplemented effectively by encouraging and brokering resources available from other than bilateral program sources. We might label this the Mission's spokesman role. Within AID alone there is sub-

stantial development activity taking place from which Costa Rica could benefit and to which it can contribute. We refer specifically to the project activity and studies funded by the Development Support Bureau (DSB). The DSB's function is to support Mission programs more directly than was the case with TAB. Yet, to the best of our knowledge the changes in how it is to function have not been fully made. We believe that the DSB's support role cannot become really effective until new methods of cooperation are worked out between Missions and the DSB. One way to accomplish this is for the DSB to "adopt" certain Mission objectives and programs. The DSB and the Mission would jointly study a sub-sector -- or key problem area -- and on this basis, the DSB would develop complementary centrally-funded R&D projects involving Costa Rica and provide technical support to related Mission-funded activities. In both cases, the areas of cooperation would be selected for their interest to Costa Rica, the Mission and the DSB. The Mission would then have greater technical resources to bring to bear on certain key problems and the DSB would have a field-responsive program. We cannot stress too strongly that we are proposing a relationship between the DSB and the Mission which is more akin to the relationship we have with LAC/DR than that we now have with the DSB.

There also are opportunities for development cooperation with other Agencies of the U.S. Government. More could be done by the Mission to take advantage of these resources in a manner compatible with our bilateral strategy, but to do so requires AID/W endorsement and a small increase in staff. (This is true for the DSB relationship also.)

The President has assigned to AID the role of development spokesman within the U.S.G. We believe that this responsibility cannot be carried out effectively unless Missions perform the same role at the country level. Such a role is particularly appropriate for middle-income countries where the development challenges will sometimes require a very precise response which AID's direct hire staff in either the field or Washington might not be able to deliver. This role is appropriate, and maybe even essential, in view of the increasing number of U.S.G. participants in the international development business, specifically such agencies as the proposed new Foundation for International Technical Cooperation (FITC). And those agencies will be more effective if they can interact with strong, knowledgeable country Missions such as ours.

We will not attempt here to further define this "spokesman" role in terms of program activities or funding levels. This can be accomplished in the course of designing and carrying out the bilateral program if we are given a clear mandate to do so.

Pursuing the strategy outlined above with the level of resources this Mission could reasonably expect to have over the FY1981-85 period would allow us to demonstrate more effective development approaches to the GOCR. We believe that this would be extremely valuable to Costa Rica as it moves into a difficult stage of its development where qualitative, structural change and emphasis on production replace the approach of quantitative expansion and emphasis on services which has been followed to date. But our program will take the form of pilot activities. Measur-

able progress in macro terms toward achieving the objectives set out in Part II.A., however, would have to come from larger-scale follow-on activities financed with domestic or other donor resources. In micro terms, on a project-by-project basis, we would be able to quantify progress. Success at the micro level would reduce the risk factor so that the GOCR should be able to expand the coverage of the programs, to the point where macro effects are observed. It will also provide experience which can benefit countries approaching problems Costa Rica is already facing.

PART III ASSISTANCE PLANNING LEVEL

AID/W has assigned this Mission an FY1981-85 Indicative Planning Level per year of \$8 million*: \$5 million as the minimum everyone gets; and \$3 million for Costa Rica's commitment to equitable development.

While we appreciate the intention behind the emphasis on absolute numbers of poor which the new top-down planning system has adopted, we would like to argue against it on the following grounds:

A. Probably the most important requirement for successful development -- host country commitment -- receives the lowest weight of the three variables in the IPA formula. Without greater weight on commitment the IPA formula could be construed as more of a defense for social welfare transfers than of development programming. Yet, AID is a development, not a social welfare, agency. Without a host government committed to

* AIDTO Circular A-502 gives us a slightly higher level.

reaching the poor, our funds, if actually expended according to the indicative planning allocations, are likely to be poorly spent.

B. The top-down planning system puts aside human rights performance as a valid factor in determining allocation of AID funds, leaving it for consideration at the ABS review. At that stage it is apt to be considered only in negative terms -- even though President Carter has publicly stated his intention that it have a positive impact on fund allocations.

C. It treats all developing countries as if they had equal importance to the United States, disregarding the proximity, historic ties and interdependence with Latin America which our country has. It discounts the fact that in not too many years the largest minority group in the U.S. will be Hispanic. This planning formula also means foregoing an opportunity to deal on the development front with the controversial problem of illegal immigration to the U.S. of Latins searching for jobs they cannot find at home.

D. It reflects the failure of the Agency to come to grips with the development problems of middle-income countries. AID appears to be leaving to such U.S.-based agencies as the proposed new FITC and, perhaps, to the DSB the resources to deal with such areas as technology transfer and research and development. Yet, these matters are central to the development process, irrespective of the per capita income level a still underdeveloped country manages to achieve. They become crucial at the more difficult stage of development that comes after quantitative expansion of production and extension of basic, expensive, social services. If AID

loses the capacity to deal with these concerns, that lost capacity will seriously weaken its position as a development agency. This Mission's recommendation that it take on a "spokesman" role is based on the strong view that this should not be allowed to happen, and on the belief that field Missions provide a "reality anchor" where development has to take place--in the developing countries.

E. Implicit in the IPA formula is a static view of development: all other things being equal, continued growth with equity becomes easier as per capita income increases. We would submit, on the basis of Costa Rica's experience and prospects, that this is not true. It may have been true in the days of program loans and budget support but the opposite may be true for the kinds of activities AID now does. In a middle-income country, at least like Costa Rica, the easy part of the job has been accomplished. Solutions are becoming harder, and more expensive, to find. The demands on government resources are growing faster than its capacity to increase revenues.

From a development perspective, the \$8 million level may be too small to give us the leverage we need to help the GOCR take risks and devise innovative solutions to the hard development problems it faces. From a foreign policy perspective such a level may make our pronouncements on democracy and human rights appear to be platitudes.

The Costa Ricans had reason to believe that U.S. assistance to their country would increase substantially in the late 1970's and 1980's. The Carter Administration's emphasis on human rights and elevation of the AID Affairs Office to a full-fledged Mission in August, 1977 were, to them, proof that this would happen.

AID has an opportunity in this country which is unique and exciting. The access we have to the highest levels of Government is excellent, as is the goodwill with which we are received. The Costa Ricans are tackling hard problems seriously and imaginatively.

The Costa Ricans do not always pursue equitable growth with pristine purity, as our Section 102(d) submission and this document have shown. Government leaders as well as private citizens have had to make, and sometimes have wanted to make, trade-offs which benefit some groups more than others. But among the countries where AID operates Costa Rica remains unique in its commitment to and its actual progress toward achieving the ideals that we ourselves espouse as a nation.

We therefore propose a funding level which will allow us to have a developmental impact as well as an influence on other U.S. foreign policy objectives in Costa Rica. We would like to experiment with policies and programs and with new relationships between the host country, the Mission and other AID, U.S.G. and private U.S. sources of development expertise. We have spelled out the development strategy we wish to support in the previous section and have also discussed the assistance instruments we think are appropriate; but we need money, staff and, most importantly,

a firm AID/W go-ahead. The attached table presents our proposed assistance planning levels for FY1981-85. The table shows both the amounts and the types of resources needed to carry out the strategy.

The Mission will need 18 U.S. direct hire employees to carry out a program of the type and level shown in the table (compared to an FY1979 ceiling of 16). Staff would be as follows: Director, Assistant Director, Executive Assistant, Controller, Program Officer, Assistant Program Officer/Economist, Social Scientist/Evaluation Officer, Loan Officer, two Assistant Loan Officers, four Rural Development Specialists, two Urban Development Specialists, one Population/Health/Education Specialist and one PVO Specialist. This staff composition would allow us to develop and carry out an innovative program with only supplementary help at the design stage from LAC/DR at approximately the level of help we receive now. While we would hope to shift an increasing share of the routine project development and implementation work to the GOCR and PVOs, this shift would not decrease the work load because of the innovative -- and therefore difficult -- nature of the overall program. This staff would also be sufficient to carry out the functions of conduit and field manager for centrally-funded activities and sources of expertise elsewhere in the U.S. as was proposed in Part II. The grant-funded technical assistance proposed to accompany the loan portfolio would assure a relatively light DH management burden and simultaneous high quality implementation, evaluation and dissemination.

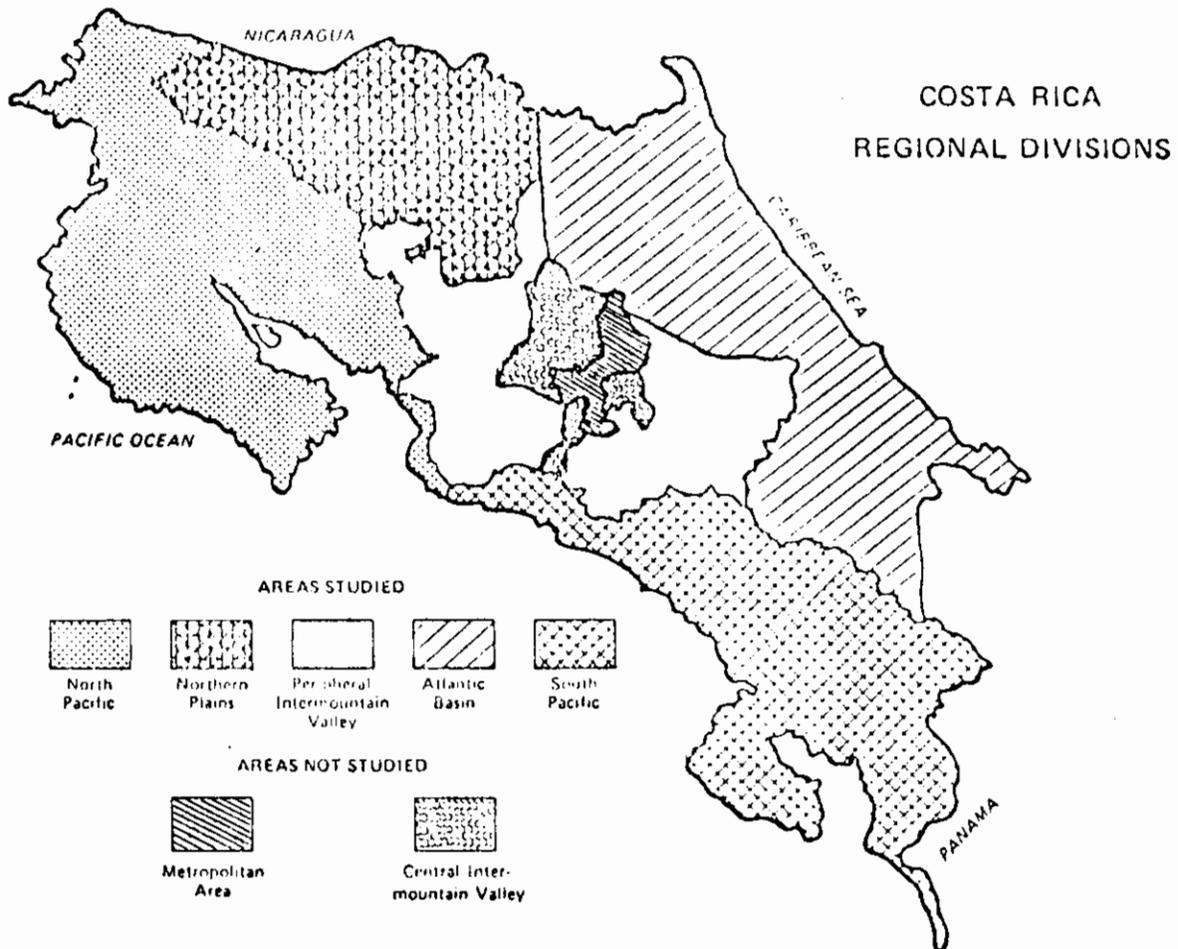
Proposed Assistance Planning Level

		Fiscal Years (\$ Millions)					
		<u>81</u>	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>Total</u>
<u>NEW</u>							
A.	Increase Access of Poor to Factors of Production						
1.	Agrarian Restructuring						
	a. Loan			7.5			7.5
	b. Grant			.3			.3
2.	Credit Reform						
	a. Loan		7.5				7.5
	b. Grant		.2				.2
3.	Worker-Owned Small Industry						
	a. Loan	7.5				7.5	15.0
	b. Grant	.2				.3	.5
	c. OPG	.1	.1	.1	.1	.1	.5
B.	Production Restructuring						
1.	Agricultural Diversification						
	a. Loan				7.5		7.5
	b. Grant				.2		.2
2.	Science & Technology Development						
	a. Technology Transfer						
	(1) Loan				7.5		7.5

		Fiscal Years (\$ Millions)					
		<u>81</u>	<u>82</u>	<u>83</u>	<u>84</u>	<u>85</u>	<u>Total</u>
	(2) Grant				.3		.3
	b. Technical Education						
	(1) Loan		7.5				7.5
	(2) Grant		.3				.3
C.	Natural Resources						
	1. Loan			7.5			7.5
	2. Grant			.2			.2
	3. OPG	.3		.3			.6
D.	Decentralized Development						
	1. Loans						
	a. Regional Development					7.5	7.5
	b. Local Development	7.5					7.5
	2. Grants	.3				.2	.5
	3. SDF	.2	.2	.2	.2	.2	1.0
	4. OPGs	.1	.5	.6	.9	.9	3.0
	Sub-Total NEW	16.2	16.3	16.7	16.7	16.7	82.6
<u>ONGOING</u>							
E.	Population	.2	.2	.2	.2	.2	1.0
F.	OPGs	.5	.4				.9
G.	PD&S	.3	.3	.3	.3	.3	1.5
	GRAND TOTAL BILATERAL PROGRAM	17.2	17.2	17.2	17.2	17.2	86.0
H.	HIG Program			10.0			

Geographic Distribution of Rural Poverty

The AITEC/IFAM study* divides the country's rural areas into five regions: the Peripheral Inter-Mountain Valley, the North Pacific, the South Pacific, the Atlantic Basin and the Northern Plains (see map). These regions represent 96.5% of the total area of the country and 54% of the population. Each of the regions presents differing opportunities and obstacles for development.



* Jeffrey Ashe, Rural Development in Costa Rica, Interbook, Inc., New York, 1978 (edited and revised text based upon the report El Desarrollo Rural en Costa Rica published in 1976 by AITEC and IFAM).

The Peripheral Inter-Mountain Valley, closest to San José and most densely populated, exhibits characteristics consistent with a long-settled but depressed region. Indeed, from the Academia study we know that the poorest part of the entire country is in this region, in the form of a crescent to the southwest of the urban agglomeration. It has the highest percentage of all rural regions of workers earning less than 400 colones a month* and has the lowest percentage of its population described as economically active. It lost 10% of its population between 1968-73.

Compared to other regions studied it is the major producer of potatoes, sugar cane, coffee and oranges. Area under production increased by 29% between 1955 and 1973, primarily through the destruction of forests. Farms tend to be small in this region: thirty percent of the land is in farms less than 50 hectares, the highest percentage of any region. Seventy-three percent of the farm area is in pasture, an intermediate figure compared to other regions. Fifty-eight percent of the economically active population work in agriculture; and 13% in industry. The latter figure ties this region with the North Pacific for the most industry; it also reflects the concentration of industry around San José.

The Peripheral Inter-Mountain Valley has a good road network, with only 13% of the communities included in the study reached by dirt roads or trails. Twenty-seven percent of its communities have frequent public transportation service (five or more departures daily), the highest of any

* 400 = \$46.5.

rural region. On the other hand, 37% of the region's communities have no public transportation, which is second only to the North Plains. (We suspect these are remote communities on the mountain slopes bordering the region.) The region also has the lowest level of public and private recreational facilities. Despite these anomalies, the region is generally well-provided with social infrastructure. It has the best housing and household services (electricity, piped or well water and sanitary service) of any of the rural regions and the highest literacy rate. It ties with the North Pacific in having the highest proportion of its population perceiving that their communities receive services from government agencies. It appears, then, that even though this mountainous region has benefitted by its proximity to the urban agglomeration, it is a long-settled agricultural area with little capacity to absorb more people or enable them to increase their incomes without major change in agricultural practices or employment opportunities.

The North Pacific Region has the worst employment situation and the highest rates of unemployment and underemployment of any of the five rural regions. Only 39% of those over age 12 worked full-time; unemployment and underemployment rates totalled 17%. From 1968-1973, net emigration was equal to 10% of the population. Thirty-eight percent of people questioned believed that the employment situation had deteriorated. Possibilities for agricultural expansion in this region are few. In 1973, 65% of the total land area was already under production, of which 88% was in pasture. Again, this was the highest proportion in any of the regions.

Between 1963 and 1973, the area dedicated to both annual crops and perennial crops decreased by more than one-third. Agriculture in the North Pacific Region generates the lowest demand for labor of any of the five regions (10.5 man-days work per hectare per year); and this region has the lowest percentage of people working in agriculture -- only 53%. It is also the region with the greatest concentration of land in very large farms -- 40% of the area in farms is in units over 500 hectares and only 23% is in units less than 50 hectares. Compared to other regions, it has many communities accessible only by dirt road (31% of the communities studied). Only the Northern Plains has a worse road system. The region has poor housing, second only to the South Pacific; and poor access to health care facilities (only 35% of the communities are within one hour's travel time to a health facility). On the other hand, a high percentage of communities have recreational facilities, and the region ties with the Peripheral Inter-Mountain Valley for the highest percentage of communities served by government agencies.

The major development problems in this region -- unequal distribution of land, lack of employment opportunities, and natural resource degradation -- are all related to the rapid increase in cattle production. With no frontier left to exploit in this region, the growing number of landless need other opportunities short of migration; these might be made available by changing the structure of agricultural activity and by developing tourism, fisheries and agro-industries.

How the development process itself contributes to poverty can be clearly seen in the North Pacific Region. Increases in beef production for export earned foreign exchange for the country in the 1960's and 1970's; this was considered a positive agricultural development then. But the costs of obtaining these increases have not been totalled yet. The extension of pasture at the expense of forest watersheds in an already dry area has led to such changes in the water table that it is affecting crop production and even the availability of drinking water. These changes are enough to make the marginal farmer sell out -- usually to larger farmers.

The South Pacific Region until 1968 was a region with a steadily increasing population. However, between 1968 and 1973, it lost 3% of its population through emigration. Many residents felt that employment opportunities worsened during the five-year period due to increasing mechanization of rice and banana production. Seventy-one percent of the economically active population works in agriculture, the highest percentage of all regions. Only 35% of the land is under production. From 1963-1973, the number of hectares under production increased 37%; the area in pastures, annual, and perennial crops increased 66%, 21%, and 5% respectively. Compared to other regions, it is the major producer of plantain, rice, beans, corn and pineapple, crops that are grown for the domestic market. The demand for agricultural labor (30 man-days per hectare per year) is about three times that of the North Pacific, although still considerably below the demand in the Atlantic Basin. Given this region's ability to

expand the area under production, prospects for employment generation in agriculture are good. The South Pacific has 44% of its total farm area in units under 100 hectares, the highest percentage of any region. While its road system, including the availability of public transport, is in the middle ranges, it has the worst housing conditions of any region, the lowest access to household amenities, the lowest percentages of communities receiving the services of governmental agencies and the lowest rate of employment in industry. Its illiteracy rate of 17% is second only to the North Plains. On the other hand, with the exception of the Atlantic Basin, fewer workers in this region than in the others earn less than 400 colones per month. It is doubtful that this will become a dynamic growth region without strong Government intervention.

In 1973, the Atlantic Basin Region, which is the major banana-producing area, had a low population density (11 inhabitants per square kilometer) and the highest level of net immigration (16% between 1968-73) of any of the rural regions. For the period 1963-1973, the rate of population growth was 1.7 times the national average. This population increase was due in large part to employment opportunities (46% of those over age 12 worked full-time) and relatively high salaries for unionized banana workers (only 25% of all workers earned less than 400 colones per month). Nonetheless, the combined unemployment and under-employment rate for the region was 13% in 1973, second only to the North Pacific. Only 14% of the total area is under production and since 1955, expansion has been at a lower rate than in other regions. In fact, the number of hectares

under production decreased 13% from 1963 to 1973. Land ownership concentration is high due to the banana industry; 48% of the total farm areas was in units larger than 500 hectares. However, demand for labor is much higher than in any other region (47 man-days of work per hectare per year).

The Atlantic Basin has the highest percentage of communities accessible by train and an intermediate frequency of public transportation. The region ranks second behind the Peripheral Inter-Mountain Region in household amenities, in favorable housing conditions, and in the relatively low rate of illiteracy (14%). On the other hand, there are severe housing shortages in the city of Limón and the region has generally low percentages of communities served by governmental agencies. It has the greatest percentages of forest reserves -- and the lowest percentage of pasture land -- of any region. The rational exploitation of these resources, including the development of agro-industries based on them, would appear promising investment opportunities in the region. Fisheries may be another.

The North Plains Region shares with the Atlantic Basin Region the lowest population density. It was the only rural region besides the Basin with a positive net immigration, although it was slight. While the salary level is low (61% earn less than 400 colones per month), 46% of those over age 12 work full-time. In 70% of the communities studied, residents feel that employment prospects improved between 1968 and 1973. The unemployment and underemployment rate is the lowest of any region. Only 32% of the land is under production. The Plains ranks second-lowest

in demand for agricultural labor (13 man-days of work per hectare per year) and 79% of farm land is in pasture, second only to the North Pacific Region. Seventy percent of those economically active work in agriculture. Only about one-third of the total farm area is in units under 100 hectares. The Plains region, because it is still being colonized, has the lowest level of infrastructure in the country. Of the communities studied, 79% have only dirt road or trail access and 85% have no regularly scheduled public transportation. Household amenities in the region are poor but not as bad as in the South Pacific Region. Housing conditions are in the middle ranges compared to other regions. Illiteracy (19%) is the highest of any region. The Plains Region has the largest number of communities that are two or more hours away from a medical facility but the perception that services are being provided by government agencies is fairly high. This region may be the most promising remaining "frontier" in Costa Rica if it can avoid the mistakes made earlier in the North Pacific Region.

Regional Characteristics and Development Indicators

<u>Characteristics/Indicator</u>	<u>Region</u>				
	<u>Inter-Mountain Valley</u>	<u>North Pacific</u>	<u>South Pacific</u>	<u>Atlantic Basin</u>	<u>Northern Plains</u>
<u>Population & Migration</u>					
1. Total Population (000)	337.9	263.3	200.7	127.8	31.2
2. Population Density (km ²)	50	20	19	11	11
3. Net Migration (% of regional population)	-10	-10	-3	16	1
<u>Employment</u>					
4. % of Economically-Active Working in Agriculture	58	53	70.5	58	70
5. Monthly Income of Paid Workers (%):					
a. Less than \$400	63	57	49	25	61
b. \$400 - 699	21	24	22	42	24
c. \$700 - 999	7	8	14	19	6
d. \$1,000 - 1,599	6	7	11	10	6
e. \$1,600 or more	3	4	4	4	3
6. % of Population 12 Years or Older Working More Than 33 Hours per Week	41	39	43	46	46
7. % of Economically-Active:					
a. Unemployed	7	8	6	8	5
b. Underemployed	4	9	5	5	4
8. % of Communities in Which Employment Situation Perceived (by Those Interviewed) to Have Deteriorated	24	38	30	23	12.5
<u>Land Use</u>					
9. Change in Area in Production Between 1955-1973 (% per Year)	.5	1.2	1.0	.3	1.4

<u>Characteristics/Indicator</u>	<u>Region</u>				
	<u>Inter-Mountain Valley</u>	<u>North Pacific</u>	<u>South Pacific</u>	<u>Atlantic Basin</u>	<u>Northern Plains</u>
10. Estimated Forest Reserves (% of Total Land Surface)	45	25	58	82	61
11. Man-Days Work Per Year by Hectares in Production	29	10.5	30	47	13
<u>Land Distribution & Agricultural Production</u>					
12. Regional Percentages of Total Crop Production:					
a. Cocoa	0.5	-	2.8	83.5	13.2
b. Banana	0.7	0.2	32.4	65.7	0.9
c. Rice	2.3	39.0	52.0	0.9	5.7
d. Guineo Cuadrado	4.4	20.0	33.6	5.3	34.9
e. Plantain	5.3	8.0	57.4	20.8	7.9
f. Cattle	14.3	48.3	12.1	6.0	13.4
g. Corn	16.4	28.0	31.2	11.7	7.8
h. Kidney Beans	17.2	27.0	35.0	0.7	15.7
i. Pineapple	22.6	1.0	30.4	2.8	26.7
j. Orange	30.0	21.0	16.2	3.7	14.3
k. Sugarcane	52.3	22.0	3.2	0.1	13.8
l. Coffee	41.3	1.0	14.3	1.0	2.7
m. Potato	70.3	0.4	0.2	-	0.1
13. Land Distribution as % of Total Farm Area:					
a. Less Than 50 Hectares	30	12	23	18	16
b. 50 - 99 Hectares	13	11	21	9	15
c. 100 - 499 Hectares	31	28	33	25	41
d. 500 or More Hectares	26	49	23	48	28
<u>Infrastructure, Services and Community Organizations</u>					
14. Means of Access (% of Communities Reached by):					
a. Paved Road	29	13	12	9	-
b. Gravel Road	58	55	70	84	21

<u>Characteristics/Indicator</u>	<u>Region</u>				
	<u>Inter-Mountain Valley</u>	<u>North Pacific</u>	<u>South Pacific</u>	<u>Atlantic Basin</u>	<u>Northern Plains</u>
c. Dirt Road	12	31	18	3	46
d. Trail	1	1	-	4	33
15. Frequency of Public Transportation (Daily Departures):					
a. 5 or More	27	14	16	6	-
b. 3 or 4	18	20	42	45.5	8
c. Less Than 2	18	38	16	37	14
d. None	37	29	26	11	85
16. % of Houses Lacking:					
a. Piped-in or Well Water	13	22	35	23	33
b. Electricity	42	61	68	61	66
c. Sanitary Services	11	24	27	14	21
17. Housing Problem Variables (% of Occupied Houses):					
a. Very Deteriorated	15	16	18	16	20
b. Need Repair	34	39	40	40	43
c. Hut or Marginal Construction	2	10	12	7	9.5
d. Dirt Floor	16	30	25	7	14
e. More Than 2 Occupants Per Room	23	31	29	24	33
18. Education Levels of Population 6 Years or Older (%):					
a. None	15	18	22	19	23
b. Some Grade of Primary	75	71	71	71	70
c. Some Grade of Secondary	8	9	6	9	6
d. Some University	2	2	1	1	1
19. Illiterates as % of Population 20 Years and Older					
	12	15	17	14	19

<u>Characteristics/Indicator</u>	<u>Region</u>				
	<u>Inter-Mountain Valley</u>	<u>North Pacific</u>	<u>South Pacific</u>	<u>Atlantic Basin</u>	<u>Northern Plains</u>
20. Time Needed to Arrive at Health Facility During Rainy Season (% of Communities):					
a. Less Than 1 Hour	NA	35	64	43	36
b. 1-2 Hours	NA	31	21	24	23
c. 2-4 Hours	NA	23	12	21	23
d. More Than 4 Hours	NA	11	3	12	18
21. Perception by Those Interviewed as to Whether Communities Are Receiving Services of Government Agencies (% of Communities):					
a. Ministry of Agriculture	48	31	16	20	32
b. Cooperative Development Institute	11	10	8.5	2	6
c. Social Assistance Institute	24	12	3	4	6
d. Land and Colonization Institute	9	20	15	15	34
e. Community Development Institute	49	28	15	15	33
f. Ministry of Public Transportation	40	35	11	31	27