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AGENCY FOR
INTERNATIONAL
DEVELOPMENT

UNITED STATES OF AMERICA

COSTA RICA

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 82-86

January 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

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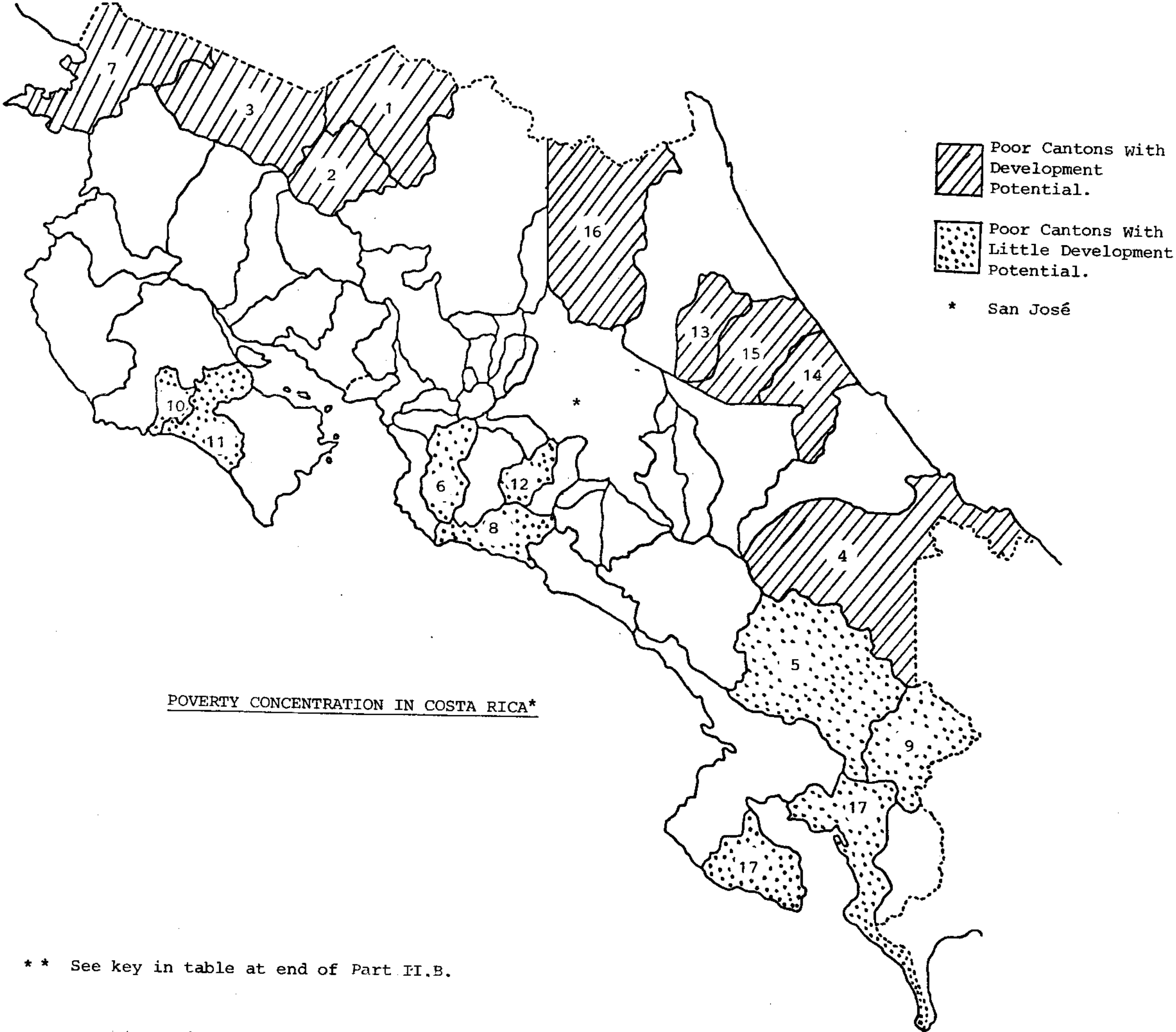

POVERTY CONCENTRATION IN COSTA RICA*

* * See key in table at end of Part II.B.

PART I INTRODUCTION AND SUMMARY

Costa Rica's current development situation is increasingly fragile and is unlikely to improve in the near future. The future cannot be a straight line projection from the present. Things have to change:

- the country has to stop destroying its natural resources in the process of agricultural production;
- it has to find new and different ways to increase exports and/or reduce imports;
- the public sector has to be made more efficient and can no longer grow (and absorb labor) as fast as it has been doing;
- external borrowing has to slow down.

Even though these problems are recognized and efforts are underway to correct them, the prospect is for a lower GDP growth rate, reduced well-being for the Costa Rican people and consequent social and political strains. We are not certain that Costa Rica's society and polity are strong enough to withstand such pressures over the long run. It is possible that the country could lose its status as a model of equitable socio-economic development pursued successfully under democratic conditions.

Last year's CDSS hinted at this economic fragility, which events force us to highlight this year. Costa Rica is being affected by economic problems which result from its past development efforts and are exacerbated by external forces over which it has little control. These problems, their origins and possible solutions, are discussed in a detailed macroeconomic analysis.

A new analysis of the characteristics and causes of poverty gives us a more programmatically useful understanding of poverty and enables us to target our efforts more precisely, both functionally and, when appropriate, geographically.

These two more comprehensive analyses corroborate and strengthen our view that Costa Rica deserves U.S. economic assistance now more than ever. AID is a marginal donor far out-shadowed by the IDB, IBRD, CABEI and the private sector. But, our funds are usually provided on softer terms and therefore can serve as risk capital for innovative ventures with long pay-back periods. As severe austerity approaches for Costa Rica, this kind of capital becomes even more valuable.

The Mission proposes roughly the same program level and composition as last year. We extend the AAPL of $15 million provided us in April, 1979 by 79 STATE 08696 through FY 86; adjusting each year for inflation. The IPA of $10 million for FY 86 is unacceptable because it is not consistent with Costa Rica's importance to the United States and to a stable Central America nor with its need as a developing country success story facing failure. With $15 million, adjusted upward to $22 million by FY 1986 because of inflation, we can add a vital element of innovation to Costa Rica's efforts to deal with the development strategy transition now facing it.

PART II ANALYSIS

A. Costa Rica's Development Performance and Prospects

1. The Basis for Development

Social equity and participatory democracy are long-standing Costa Rican ideals whose roots can be traced to its impoverished, equalitarian colonial beginnings. They are ideals which, although threatened by a powerful coffee-based economic elite in the late 19th and early 20th centuries, resulted in the reduction of illiteracy to 25% by 1927 and the creation of the social security system in the early 1940's.

Drawing on these ideals, the Revolution of 1948, which became a watershed in Costa Rican history, brought a series of structural changes to the economy and to 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 the vote to women, blacks and people without property were among the most important of these changes.

The present 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 an activist, reform-minded State; and an economy heavily dependent on export of tropical agricultural products, mainly coffee and bananas.

2. 1950-1974, A Model of Development

The post-revolutionary third quarter of this century witnessed fundamental changes in the Costa Rican economy and society. The 1950 to 1974 period was characterized by basic structural shifts in the economy, rapid urbanization, dynamic economic growth, and a fundamental demographic transformation.

In 1950 the country was 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 had only 90,000 people and industrial capacity was limited. By 1973 the country's urban population of 737,000 constituted about 40% of the total population, and metropolitan San José had grown to 397,000. Manufacturing as a percentage of GDP grew from 13% in 1950 to 21% in 1974, equaling in that year the once dominant agricultural sector, which in 1950 had made up 41% of the GDP. Employment in agriculture decreased from 55% of total employment in 1950 to 38% in 1973. In the same period employment in manufacturing increased only from 11% to 12%. The service sector picked up the slack, moving from 30% to 42%, with the increase in public sector employment being most marked --it grew from 6.2% in 1950 to 16% in 1973.

In 1955 coffee and bananas accounted for 87% of exports, industry for 2%; by 1974 coffee and bananas constituted 51% of exports and industrial exports had increased to 27% of the total. Of industrial exports 85% were destined to other countries of the Central American Common Market (CACM) which Costa Rica joined in 1962.

The 1950-1974 period was one of dynamic economic growth as the following table illustrates:

RATES OF GROWTH OF GDP AND GDP PER CAPITA, 1950-1974

Period	GDP	GDP Per Capita
1950-1959	7.3	3.6
1960-1969	6.0	2.6
1970-1974	7.1	4.5

Overall, for the 1950-1974 period real GDP grew at an annual rate of 6.7%; because population growth averaged 3.4%, per capital GDP grew at 3.3%.

The most dramatic change during the 1950-1974 period was probably the demographic one. In the fifties the population growth rate was 3.7%; in the sixties, 3.4%; and from 1970-1974, 2.6%. The gross reproduction rate (daughters per woman), which increased from 3.17 in 1950 to 3.54 in 1960 and then dropped sharply to 2.42 in 1970 and to 1.92 in 1974, illustrates the decrease even more markedly. No other Latin American country has experienced such a sharp decline in such a short time.

What were the factors and strategies that underpinned Costa Rican success during this period? Political stability and a high degree of consensus were undoubtedly important. 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. In turn, rapid economic growth permitted making the country's commitment to equity a reality. The share of the pie was large enough for almost everyone, with the result that non-mainline political leaders and groups were kept in check.

Economic growth was spurred by the successful application of two basic strategies. One was to expand agricultural and livestock production by bringing new lands under cultivation or into pasture. 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.

The public sector was a key actor. Public expenditures increased at a real rate of 9% during the 1957-1974 period compared to a rate of only 5.5% for private expenditures. Public sector gross investment increased at a 9.4% rate over the period, somewhat faster than the also brisk private investment (8.6%). The ratio of gross public and private investment to GDP increased from 17% in the 1957-1961 period to an astounding 36% in the 1970-1974 period. The level of investment was sustained, in spite of relatively low savings ratios (net public and private savings were 7.4% of GDP during 1957-1961 and 10.1% during 1971-1974), by external financing, principally by direct investment in the private sector and by capital transfers to the public sector. The importance of external financing is underlined by the fact that it accounted for 24.5% of gross investment during 1957-1961 and 48.4% during 1970-1974;

the sacrifice of current consumption was therefore not large. Public sector "consumption" expenditures, which also grew rapidly, financed broad coverage education and health service systems. Rapid economic growth, full employment, and public services resulted in a decrease in the number of people living in absolute poverty to about one-quarter of the population.

The development strategies Costa Rica followed in this period were also followed by other countries and were supported by international donors. In the case of Costa Rica, not only were they successful in bringing rapid growth but "trickle down" also produced equity because of the GOCR's commitment to the extension of basic social services. Now, however, those strategies are producing diminishing returns. Since 1974 economic growth in Costa Rica has slowed markedly and the remaining poverty can probably not be eliminated by an extension of the old remedies --even if this could be done feasibly-- nor in an environment of slow growth. In short, although the old strategies produced growth with equity, they have had as a consequence the creation of a new set of structural, environmental, and administrative problems which Costa Rica will have to overcome if it is to continue its development progress. These are discussed below. Moreover, continued use of those strategies coupled with complicating external and internal factors are behind the near-term crises that the Costa Rican economy is experiencing.

3. 1974 to 1978, Slower Growth

In spite of the 1976-1978 coffee bonanza, during which coffee prices jumped two to three times their 1975 level, the 1974-1978 period was one of slower growth. GDP in real terms grew at 5.5% during the period; GDP per capita grew at 2.9%, reaching $632 in 1978 (in 1966 prices). This growth, although lower than in the past, was still respectable. However, while

Costa Rica attempted to adjust its economy to the quadrupling of petroleum prices in 1974-1975, it thereafter resorted to an increasing reliance on external capital flows, particularly commercial bank loans, which contributed heavily (along with high coffee prices) to a period of outward economic prosperity.

During this period, however, several basic weaknesses appeared. First, agricultural production experienced very low growth, with value added increasing at 2.4% between 1974-1978 (or -0.2% per capita). Secondly, for reasons discussed below, the CACM showed itself to be a weaker market than previously and became a less important one, especially for Costa Rica's industrial exports, foreshadowing the future need to penetrate more difficult markets. In 1978 only 14.9% of Costa Rica's exports were destined for the CACM compared to 23.7% in 1974 (CACM trade as a percentage of Costa Rica's total dropped from 19.8% in 1974 to 15.9% in 1978). The CACM in 1974 purchased 84.6% of Costa Rica's manufacturing exports; by 1978 this had dropped to 69.4%. Thirdly, although the costs of imported petroleum as a percent of export earnings increased only slightly (from 11.3% to 12.4%), consumption increased from 3,796,853 barrels in 1974 to 6,126,565 barrels in 1978, a 12.7% p.a. rate of growth. Fourthly, the worsening government fiscal deficit and expansionary monetary policy, which are further discussed below, pumped up aggregate demand which resulted in inflationary pressure that was in part dissipated by expanding imports. Increasing levels of external and internal debt on less favorable terms and structure were also a consequence. Finally, exports increased at a rate of only 16.3% over the period, while imports increased at 18%, leading to an increasing current account deficit in the balance of payments. Perhaps more fundamentally, exports at constant prices increased at an annual rate of only 1.7% while imports at constant prices increased at 6.5%. The table below illustrates these relationships.

Exports	1975	1976	1977	1977
% change at constant prices	-6.3	-1.0	-3.8	19.3
% change in index of unit value	18.2	20.1	40.0	-12.0
Imports				
% change at constant prices	-12.1	6.5	20.6	12.2
% change in index of unit value	10.8	6.0	7.3	7.2

Thus, because the terms of trade shifted adversely in 1978 even though the volume of exports increased faster than that of imports, in value terms import growth greatly exceeded export growth.

4. Current Difficulties

Until 1978 favorable terms of trade coupled with large capital inflows masked two fundamental problems: a disequilibrium between internal and external prices and inflationary aggregate demand growth fueled by expansionary fiscal and monetary policies. The Central Government deficit as a percentage of GDP increased every year except 1977 from 0.5% in 1974 to 4.4% in 1978. Similarly, internal credit grew at an annual rate of 29% during the 1974-1978 period, with credit to the private sector growing at 18.8%.

The consequences of the foregoing on internal prices were not worse because heavy external borrowing permitted the financing of substantial growth in imports. However, from 1974 to 1978, the amount of external public debt having an original maturity of over 15 years decreased from 63% to 54%, reflecting a shift from concessional to commercial lending. The public debt service ratio increased from .117 of exports in 1977 to an estimated .234

($199.2 million) in 1979 and has been projected to reach .35 by 1985, even with careful economic management.

Thus 1979 saw Costa Rica's economy with:

-- excess internal demand because of expansionary fiscal and monetary policies;

-- a sharply deteriorating balance of payments because: (a) even though coffee production increased slightly over 1978 (1.8%), prices dropped an estimated 24%; (b) the oil import bill increased 67% due to a 48% increase in prices and a 12.7% increase in consumption (fanned by excess demand); (c) excess internal demand reduced quantities available for exports; and (d) the disparity between internal and external price levels increased;

-- a reluctance in external capital markets to the maintenance of high levels of commercial capital flows to Costa Rica;

-- a level of external indebtedness which required $200 million of new indebtedness just to service outstanding public debt; and

-- a rapidly accelerating rate of inflation: from October, 1978 to October, 1979 the wholesale price index increased 22.6% (compared to an 8.9% increase over the preceding twelve months). For the three months ending in October 1979 the index increased at an average rate of 2.2% per month (annual rate of 29.8%) which compares to a rate of 0.6% per month for the same period in 1978 (annual rate of 7.4%).

Recent developments in the trade balance are illustrated by the following table.

COSTA RICA'S TRADE BALANCE
(U.S. $ Millions)

Period	Imports	Exports	Deficit
1977	1,021.4	828.2	193.2
1978	1,184.5	858.4	326.1
Oct 77-Oct 78	1,146.8	829.7	317.1
Oct 78-Oct 79	1,377.7	866.4	511.3

Thus for the 12 month period ending in October of 1979 the trade deficit had increased 61% over the same period in the prior year. Preliminary estimates of the 1979 deficit vary from $535 million to $559 million. The current account deficit is projected to grow from $371 million in 1978 to an amount in excess of $600 million, or some 17% of GDP, in 1979.

At the end of 1978 it was already clear that the Costa Rican economy was having difficulties and as a consequence an "informal" stabilization program was adopted. Among its features were: (a) growth in government expenditures and revenues of 14%; with 75% of the deficit to be financed internally, in the main through bond sales, and (b) a reduced rate of growth in domestic credit from 30% in 1978 to 16.6% in 1979, with the public sector share of new credit declining to 36%. The foregoing, among other things was to lead to a drop in the growth rate to 3.5% and to no growth in imports in nominal terms over 1978 levels.

The targets of the 1979 "informal" stabilization program were not met. As of August 31, 1979 (not taking into account a later public employee pay increase), Central Government expenditures were running an estimated 29.6% above the previous year v. the 14% target, and current revenue was running only 9.0% higher v. the 14% target. The target for domestic credit growth of 16.6% had already been passed in July (19.8%), and was growing at 2.7% per month (38% p.a. rate). Of the almost 2,5 billion colones of new domestic credit created in the first seven months of 1979, 65.6% went to the public sector v. the 36% target. Imports, which were to remain constant, were by the end of October, 1979 running 19.9% ahead of October, 1978.

Compounding the fiscal imbalance, the methods used to finance the government deficit proved inflationary. Because of low interest rates on bonds and their varying interchangeability with other deposits with respect to reserve requirements, there was a net shift out of bonds into tradeable certificates of deposits and a resulting expansion of credit which was not offset by increased private sector savings.

Following are some key ratios which summarize the current situation.

External	1977	1978	1979
Exports/GDP	.270	.247	.214
Imports/GDP	.332	.341	.347
Trade deficit/GDP	.063	.094	.134
Trade deficit/Exports	.233	.380	.626
Public external debt service/Exports	.117	.200	.234
Monetary			
Money supply/GDP	.176	.190	.171
Quasi-money/GDP	.192	.234	.262
Total domestic credit/GDP	.362	.411	.492
Public sector credit/Total credit	.250	.275	.361
Fiscal			
Gov. expenditures/GDP	.170	.198	.210
Tax revenues/GDP	.125	.128	.120
Gov. deficit/Gov.expenditures	.220	.300	.375

5. Prospects for 1980

Assuming that no exchange adjustment occurs, Costa Rica's exports should increase only moderately in 1980. Average coffee prices are expected to be higher but, because of excess rain and the coffee cycle, output will be somewhat lower. Banana exports should increase somewhat but only if further labor problems can be avoided. Meat exports could increase substantially, especially if internal demand contracts. Sugar exports should benefit from higher prices, but quantities exported will probably not increase substantially. Cacao prices will probably remain relatively high but production somewhat lower because of disease problems. Exports of manufactured goods and non-traditional agricultural exports should continue their long-term increase, although perhaps at a somewhat moderated rate because of decreases in external demand and increasing domestic costs of production. Prospects are for perhaps a 10% increase in overall exports.

Over the past three years, Costa Rica's income elasticity of imports (% Δ in imports/% Δ in nominal GDP) has averaged 1.19. Assuming, conservatively, that real GDP shows a zero growth rate and that nominal GDP increases at 10%, imports would increase 19% with an income elasticity of imports of 1.19 and a stable exchange rate (or no other import controls). If in 1980 imports increase by 19% over an estimated $1,400 million level in 1979 and exports increase by 10% over an estimated $870 million 1979 level, imports would total $1,666 million and exports $957 million, leaving a trade deficit of $709 million and a current account deficit in excess of $900 million, which is not feasible. Were exports to increase 15% instead of 10%, the resulting trade deficit of $566 million would be roughly comparable to that for 1979 and still would be difficult to handle.

Toward the end of 1979 the GOCR submitted a stabilization program which the IMF is presently considering. The basic tool to be employed in the two-year program is "demand management"; no direct import controls or devaluation is contemplated. In the fiscal area the program calls for: (a) a decrease in the public sector deficit from ₡4.2 billion to ₡3.08 billion; (b) an increase in public sector savings from ₡99 million to ₡747.5 million; (c) a 10% reduction in the internally financed budgeted expenditures of public sector autonomous agencies and a "rationalization" of their imports; (d) a 15% increase in Central Government expenditures; and (e) a tax increase equivalent to 15% of the public sector's estimated consolidated deficit for 1980 --₡462 million. The program's monetary targets are: (a) a ₡1,681 million limit on credit expansion to the private sector, a 16% increase over 1979; (b) an increase of 14% in the banking system's liquidity (money and quasi-money); (c) net new credit to the public sector limited to ₡1,652 million; and (d) new external public debt limited to $290 million.

The program is expected to result in a nominal growth in GDP of 16% and the same nominal level of imports as in 1979 (a decrease in real terms). A relatively moderate decline is foreseen in the total supply of goods and services because of inventory trimming. The GOCR will attempt to apply policies with respect to profits, prices, and salaries which, without hurting lower income groups, are compatible with the objectives of the program.

To increase taxes the program submitted to the IMF made reference to a tax reform package then pending in the Legislative Assembly which would have increased property and capital gains taxes and reformed income taxes; the GOCR program also endorsed legislative initiatives to create a temporary 15% income tax surcharge and to increase the sales tax from 8% to 10%.

When the GOCR Legislature had not acted on the tax proposals by the end of 1979, the Executive decreed a series of new taxes on soft drinks, beer, liquor, cigarettes, gasoline, non-work vehicles with motors exceeding 1000 cc. and light diesel vehicles. Hopefully, the regressive consumption taxes will only be temporary.

The strategy underlying the stabilization program is that gradual adjustment of the foreign trade balance will permit the GOCR to continue to implement measures to strengthen the economy's long-term performance. Among these are the interest rate reform and general financial liberalization and the (to date partial) opening up of the economy which will in the long-run result in a more rational allocation of resources. Furthermore, existing long-run fiscal and debt tendencies must be remedied.

Aside from technical questions one may raise about the proposed stabilization program, such as the compatibility of a 16% growth in nominal GDP, zero nominal growth in imports and current exchange rate and import control policy, there are also questions of political feasibility. The GOCR will face extremely strong pressures in the area of wage and price increases. In January of 1980 the inflation observed in the wholesale price index in the latter part of 1979 is trickling down to the retail level. Price controls are already resulting in spot shortages. Strikes, including public employee strikes, are likely, in the face of eroding buying power. It is to be hoped that the short-term negative sum game of the stabilization program will not lead to the disruption of the Costa Rican social pact.

What will be the effect of the stabilization program on Costa Rica's poor people? Unfortunately it will be severe. Cutting government expenditures, increasing revenues by taxing popular consumer items and severely contracting internal demand will probably all affect the poor more than would quicker, cleaner policy changes. The general policy question --one that is not Costa Rica specific-- concerns what strategies might be pursued during a foreign balance correction to minimize its negative effects on the poor. This seems to us a fruitful area for IDCA concern.

6. Long-term Problems

In focusing on solutions to the near-term problems which the Costa Rican economy faces, it is easy to lose sight of the fact that the crisis is the culmination of longer-term tendencies, many of which are now becoming obstacles to further development. They must be dealt with adequately, if Costa Rica is to resume a vigorous, solidly based growth which offers the only viable framework within which absolute poverty can be eliminated.

It will be recalled that since the early 1960's Costa Rica has followed development strategies which can be summarized as follows: (1) land intensive expansion of traditional agricultural exports, (2) industrialization by means of import substitution and regional (CACM) integration, and (3) extension of infrastructure and basic social services through a growing public sector. These strategies have been financed, in part, by foreign loans and direct investment and have involved the use of imported technologies. Although these strategies were successful, they cannot continue to be the basis for Costa Rica's development because good unused lands are almost gone, opportunities for efficient import substitution are declining, the extension of basic social services through the public sector is reaching diminishing returns, and foreign debt service should not increase. Costa Rica, in short, needs new strategies to deal with a set of new problems, many of which are interrelated.

Some of these problems are dealt with briefly below.

a. Export Capacity. In 1979 Costa Rica used 23.4% of its foreign exchange earnings to service its external public debt and another 20.1% for petroleum imports, with the latter percentage conservatively estimated to increase to 23% in 1980. The public debt service ratio is projected to be .35 by 1985 even with prudent economic management. In the early eighties public debt service and petroleum imports will require approximately 50% of export earning, and they could easily approach 60% of exports in the middle eighties. Moreover, because Costa Rican manufactured exports are very import-intensive, their net "import buying power" is low. Manufactured goods consumed internally are similarly import-intensive. Because imports must be paid for sooner or later, continued Costa Rican growth in the 1980's will require much higher levels of exports.

Because of the limitations of the CACM, an increasing percentage of exports will have to be sold on the world market. Although a more diversified pattern of exports would be desirable, the country must make the most of every opportunity to increase its exports or their value added. Obstacles to exporting --permits, taxes, lack of knowledge-- should be minimized. The current exchange rate is also a fundamental obstacle to export expansion and diversification.

Costa Rica has had an export development program since 1973 and has recently formulated an export development plan, which is discussed in Section II A 7 below.

b. Central America. As mentioned earlier, although the CACM gave an important impetus to Costa Rican industrialization, in recent years it has become relatively less important. Increasingly, Costa Rican industrial exports are going to non-CACM markets. This is so despite respectable GDP growth rates in other CACM countries --they averaged 5.6% p.a. from 1970-1977 (excluding Honduras, now a marginal CACM member). In recent years political factors in neighboring countries may have contributed to the relative decline of the CACM. More importantly, industrial growth through import substitution is not as significant anywhere in the CACM region as in the past, because most of the easy import substitution opportunities are gone. Past growth due to participation in the CACM cannot be repeated.

Unfortunately, the incentives and protection that the CACM offered have left another legacy --an inefficient industrial sector which is heavily dependent on imported materials, capital goods and technologies, and which has not offered employment opportunities commensurate with its growth. Only an estimated 60% of the sector's installed capacity was utilized in 1976. Industrial productivity is low while unit costs, profit margins, and output prices are high; incentives to produce and export products with a high content of Costa Rican labor and raw materials are low; and the technological structure of the sector has developed without close regard to Costa Rica's relative factor endowments of labor and capital or its natural resource base. The effects of CACM import substitution and economic integration upon the poor have probably been two-fold: their incomes have suffered due to lower levels of employment and/or real wages than might have resulted from alternative industrialization policies; and they have paid higher prices for manufactured goods. Now, the high cost, inefficient structure resulting from industrial integration is an impediment to expansion of exports outside the CACM, and the resulting internal terms of trade have disadvantaged agricultural production, as well. That the agricultural sector has hardly been touched by integration may also be one of the reasons for the CACM's loss of importance.

The Costa Rican economy could benefit from a more vigorous, liberalized CACM. Costa Rican efforts to achieve this are discussed below in the context of the GOCR's development strategy.

c. Energy. Close to 25% of Costa Rica's export earnings now go to pay for imported petroleum; it could well increase. Unlike many industrialized nations facing similar trade account statistics, Costa Rica's petroleum suppliers, Mexico and Venezuela, purchased very little from it --less than 0.5% of Costa Rica's exports in 1977.

Costa Rica has considerable potential energy resources, such as hydro and geo-thermal power, oil deposits, methane, and lignite, which might be developed and used to reduce its dependency on petroleum imports.

The country's first anhydrous alcohol plant was inaugurated in early 1980 for the production of gasohol. Given present technologies, alcohol might feasibly replace up to 20% of gasoline, if either a slight increase in petroleum prices or a slight decrease in sugar prices occurs. The plant is thus a good, albeit expensive, insurance policy.

Costa Rica has already begun to use its hydroelectric resources to reduce petroleum consumption. The nine per cent of its imported petroleum which was used to produce electricity in 1977 has been replaced with hydroelectric energy. With an installed capacity of 227, MWS Costa Rica has more hydroelectric energy than it presently needs and, with the development of other hydroelectric and geo-thermal sources, it may in the next three years be able to export some of its electricity to neighboring countries. The country's hydro potential of 9,000 MWS is only beginning to be tapped, and the same is probably true of geo-thermal potential. Reaching it will, however, require large capital inflows [1] and strong natural resource conservation efforts.

The industrial sector uses 48% of petroleum imports and the transport sector 36%. Both sectors use gasoline, diesel and bunker, which account for 94.7% of petroleum consumption. The balance, propane and kerosene, are used as household fuels. Priority in import substitution should go to the most significant uses. The use of electric cars, buses, and boilers are examples of where conversions could be made. Harnessing electricity generated in low demand hours, perhaps to generate hydrogen, could also alleviate the fuel problem.

Costa Rica has oil, gas, shale, and tar sands deposits. Oil was first discovered in superficial pools in the southeast of Costa Rica in 1874. Between that time and 1963, three U.S. oil companies drilled 22 wells, finding oil in three and methane in practically all. But, the oil and gas discovered was not considered commercial. What was not commercial in the early 1960's for multi-national oil companies might be worthwhile for the nat-

[redacted]

other areas.

Costa Rica also has lignite (coal) deposits. A research project is currently examining the location, quantity, and chemical characteristics of these deposits, which apparently are low-grade.

in the storage of hydrogen have

Because Costa Rica is endowed with water and inexpensive electricity, the cost of production might be reasonably competitive with the price of petroleum.

d. Natural Resources. Costa Rica faces serious natural resource conservation problems. Land use and potential studies indicate that in 1973 there remained only 364,000 has. (or 7.1% of the total land area) of unused land apt for agriculture. On the other hand, perhaps one-third of the over 1.5 million has. in pasture should be in forest uses. In the 1963-1973 period some 557,000 has. passed out of forest use and some 622,000 has. into pasture use. The forest reserve diminished from an estimated 53% of the total surface area in 1950 to 45% in 1963 and to 31% in 1973. These statistics reveal a massive destruction of forests. The underlying causes of forest clearing are not completely understood. There is some agreement, however, that the timber industry clears between 5,000 and 10,000 hectares of the 60,000 hectares of forest being cut down annually; the balance is cleared by squatters, land speculators and, even occasionally, as a result of organized colonization.

Costa Rica must manage its land resources better, and it must stop deforestation and reverse it. The 364,000 has. of remaining unused agricultural land will require more careful management, if they are put into use, because much of it is in heavy rainfall areas and some will require drainage.

Costa Rica has been a leader in conservation. It has put approximately 5% of its land area into parks and similar reserves (a higher percentage than the U.S.). Unfortunately, a "lock up" policy is not enough. The country must find environmentally sound, productive ways of using its natural resources. Use of good lands must be intensified to protect marginal lands. To stop deforestation, viable options to squatting must be found for the rural poor. Sound tropical forestry management needs new technologies and must be made more profitable. Viable incentives must be developed to make reforestation feasible for small farmers. Perhaps most fundamentally, a consistent long-run natural resources conservation strategy/policy must be developed.

e. The Public Sector. Measured by almost any standard, the public sector in Costa Rica has grown extremely rapidly in recent years. At present the public sector consists of 182 institutions (168 of which are autonomous), 76 of which have been created since 1960. In real terms public sector expenditures grew 12% p.a. from 1970 to 1978, more than twice the rate of growth of GDP during that period. In 1978, the government provided 18.6% of total employment (127,762 workers) which compares to 16.0% and 6.2% in 1973 and 1950 respectively. Autonomous institutions were often created to avoid the more cumbersome budgeting and procurement processes of the Central Government and often at the insistence of international donors who desired to channel their funds through more efficient institutions than the Central Government.

The Minister of Finance estimates that 96.3% of internally financed Central Government expenditure is obligatory and out of the elected government's control because of constitutional, legal, or contractual reasons. Control of over 60% of public expenditure is fragmented because it is in autonomous agencies. Perhaps the greatest irony is that the public sector is out of control in part because it is over-controlled. Its finances are governed by a now archaic law designed to check corruption but now unworkable. For instance, no purchase over $2,400 can be made without the prior approval of the Controller General. Budgets are overly detailed and their inevitable modification requires a myriad of approvals and an Executive Decree.

Costa Rica must bring the growth of its basically high quality public sector under control. Procedures must be streamlined and systems made more productive. Useless controls should be abolished. The public sector's employment intensivity must be reduced.

Publicly provided services and infrastructure are essential for eliminating absolute poverty in Costa Rica. To extend them and improve their quality, it is essential to lower their costs and improve their productivity.

f. Employment. In the first half of the eighties, the Costa Rican labor force will grow at about 4.2% per annum as those born in the early 1960's enter it. This will happen at a time when public employment and GDP growth rates slow and resource allocation is rationalized. Because of excess aggregate demand and hidden unemployment during most of the seventies, open unemployment has not beena serious problem. It is probable that it will become a more significant and perhaps a major problem in the 1980's. Providing viable employment to its citizens may become one of Costa Rica's major challenges. The new development strategies it adopts, therefore, must be more labor-intensive than those it followed in the past.

7. Costa Rica's Development Strategy

a. The National Development Plan. Because Costa Rica's Plan for 1979-1982 is an indicative one, it has not been completely outdated by the present external imbalance. Many of the Plan's targets (such as a 6.5% p.a. increase in GDP) and investment goals (such as $1.3 billion in fixed investments) will not be reached because of the external disequilibrium. Nevertheless, except for its analysis of the international context of the Costa Rican economy, the Plan's assessment of the long-term problems facing Costa Rica is an accurate one. The long-term problems that the Plan describes and analyzes agree very closely with those we described earlier and will probably still have relevance during the FY 1982-86 CDSS period. Moreover, because the objectives, strategies, and policies outlined in the Plan continue to reflect the views and approaches of the present GOCR Administration, which will change in 1982, it does merit a brief description here. (A copy is available in LAC/CEN).

The Plan places greater stress than has existed in the past on achieving a more efficient, productive structure, on the rationalization of resource use, both human and natural, and on the permanent socio-economic improvement of the Costa Rican population, especially its poorer segments, through higher productivity and greater access to the means of production. Broader popular participation, greater public sector effectiveness, "man-centered" development, geographic decentralization, and a level of consumption more appropriate to Costa Rica's possibilities are also concerns of the Plan.

In short, present GOCR strategies recognize that sustaining, consolidating, and increasing the socio-economic development that Costa Rica has achieved to date will require productive structures having greater economic efficiency than at present so that Costa Rica is able to: compete in a broader spectrum of world markets; promote domestic savings; and husband and enhance both its human and natural resources. Although these strategies have the ring of an orthodox "market-to-market" approach and, indeed, contain many "market-to-market" prescriptions, characterizing them as such would do injustice to their subtlety. The approach is man-centered, and growth with equity is central to it. The poor, therefore, are seen as development resources with a potential for enhancement, and this enhancement is seen as the long-run solution to their poverty as well as a new source of dignity. Thus, larger transfer payments are rejected in favor of the "capitalization" of the poor. The objective is to increase their skills, their productivity and their participation in the ownership of other productive assets.

b. Central America. With regard to Central America, the upheavals in Nicaragua and El Salvador, as well as stirrings elsewhere on the isthmus, have made Costa Ricans nervous about their own future and somewhat despairing of their relations with their neighbors and desirous of being less dependant on them (see National Export Development Plan, below). In spite of the foregoing, the country's commitment to revitalize and liberalize the CACM continues. Costa Rica's approach to the CACM is well summarized in the Plan, which states that reactivating and improving integration is fundamental to the country, and to that end Costa Rica should strive to negotiate a new general treaty; in the mean time special treaties should be negotiated that: (1) rationalize the tariff and fiscal incentives systems to lower and make uniform present levels of protection for consumer, intermediate and capital goods; place greater stress on generating high value-added and employment; and eliminate incentives favoring capital utilization; (2) guarantee a more uniform treatment of foreign investment; (3) set up common marketing offices in potential markets; (4) set a common commercial policy or negotiate as a group with regard to external credit conditions and import and export prices; and (5) increasingly incorporate Panama into the CACM. If Costa Rica is not successful in these efforts, it can be expected to try increasingly to improve its fortunes outside the CACM; the new National Export Development Plan shows strong indications in that direction.

c. National Export Development Plan. Affirming that the challenge of the 1980's is to increase exports, the GOCR in January 1980 published the Plan Nacional para el Desarrollo de las Exportaciones (PNDE), the first phase of a ten-year, top priority program. The PNDE proposes administrative, organizational, and policy changes as well as a strong set of export incentives, financing, and subsidies to promote vigorously exports and production for export. Emphasis is on non-traditional exports with high domestic value-added to non-CACM and Panama markets.

The PNDE would give the Export and Investment Promotion Center (CENPRO) new powers and resources and the management of a well capitalized Export Development Fund, making it the focal point of a national effort to export. The Plan proposes to reorient the Costa Rican foreign service to make exporting its top priority; remove administrative and procedural barriers to exporting; establish bank branches in principal markets; and negotiate trade agreements with non-CACM countries, especially those with preferential tariffs for LDC's.

The incentives and subsidies to exports proposed by the PNDE include: subsidized credit for exporting to countries outside of Central America and Panama; subsidized export credit insurance for small producers (on the PCGP model); guaranteed support prices for perishable products for export; restructuring the granting of export tax credit certificates (CAT's), which are negotiable instruments, to any exporter of a given product rather than to a specific firm; income tax reductions for exploratory costs related to entering new markets; tax exemptions for exports of new production outside of Central America; accelerated depreciation for plants and equipment used for exports; and other fiscal incentives for second and third shift operation of installed plants if additional output is for export.

Infrastructure, transportation, and support services for export would also be strengthened by: improved, subsidized warehousing, shipping, and transport for non-traditional exports (paid for by raising these charges on imports); subsidies to shipping companies to insure regular port calls; and research and promotion of packing and container technologies and industries.

The PNDE has many positive points such as its organizational proposals and such innovations as support prices for exportable perishables. However, its implementation could introduce new distortions into the Costa Rican economy. The program's subsidies and incentives must be strong, if it is to succeed, because fundamental Costa Rican production cost disadvantages, which have their origin in the disparity between domestic and external price levels, must be overcome in order to export.

8. Other Donor Assistance and Absorptive Capacity

The IDB, IBRD, and CABEI, in that order, are the principal concessional lenders to Costa Rica. In 1979 they disbursed approximately \$138 million and at year's end their undisbursed portfolios totalled approximately \$300 million, with the IDB accounting for well over half of that. Their new loans in 1979 were around \$120 million: IDB, \$59.4 million for rural electrification and roads; IBRD, \$34 million for electric power; and CABEI an estimated \$25-30 million, principally for roads and higher education. The Venezuelan Investment Fund financed principally road construction, and Japan has been assisting in port development.

Costa Rica also receives a variety of grant-funded technical assistance from both multilateral and bilateral sources in areas which include agriculture and forestry development, health, animal husbandry, general planning and port construction.

By providing resources for infrastructure development and grant-funded technical assistance, other donors generally complement and facilitate AID-supported efforts in nutrition, rural development and natural resources, urban development and employment, science and technology, and with private and community level groups.

Costa Rica's substantial physical and institutional infrastructure and high quality human resources could absorb much higher levels of assistance than are currently being received. The $290 million Stabilization Program limit on new external debt in 1980 should not be an obstacle to new concessional lending, which could help the term-structure of the existing debt if ample provisions for local currency disbursement were provided. If middle income counterpart practices are not liberalized, they could become a constraint.

In part, other donor activities are concentrated in large infrastructure projects, often with autonomous agencies, and in special banking system lines of credit, because the GOCR's normal budgeting and procurement processes pose serious constraints to implementing other types of projects. Similarly, weaknesses exist in the areas of project development and evaluation. Discussions with IFI officials indicate that their assistance levels in 1979 were constrained by a lack of good project proposals. However, this may only be a reflection of the governmental change in mid-1978. Disbursements of the principal lenders in 1979 exceeded their new lending which indicates that Costa Rica's absorptive capacity is far from being reached.

B. Characteristics and Causes of Poverty

Last year's CDSS presented basically three types of information about the poor. These studies and the underlying data were flawed in a variety of ways, with the flaws particularly evident with respect to income data and for comparisons at sub-national levels. Therefore, the Mission undertook, with the help of LAC/DR, two additional analytical exercises to try to overcome these difficulties and get a better understanding of poverty in Costa Rica. These exercises have enabled us to obtain a more precise geographical and functional description of poverty, but they have not led us to significantly different conclusions about poverty in Costa Rica, either in its descriptive or causal dimensions.

Estimates of the number of poor families or total proportion of families which are poor range from about 23% to 51%, depending on the methodology used. Last year the Mission used the most conservative definition contained in a study of poverty in Costa Rica by the Academia de Centroamérica using 1973 census data. This resulted in the finding that 23% of Costa Rican families (or 26-28% of individuals) in 1973 were living below the AID poverty benchmark of $150 in 1969 prices. The problem with using the conservative definition, however, was that it did not allow us to disaggregate the poor from families into individuals as well as into operationally useful categories such as landless. One of the two exercises undertaken recently (which had as its objective the development of a landless strategy) adjusted the assumptions underlying a more moderate income definition of poverty used in the Academia study so that this disaggregation could be done and still be consistent with the more conservative definition of poverty. This was done by reducing the income considered to be below the poverty line from ₡1,100 to ₡800 per year. It resulted in about 32% of the population being considered poor compared to 26-28% under the conservative definition.

These manipulations show how easy it is to come up with different percentages of poor people or poor families. The data do not justify quibbling over whether 26 or 32% of the population is poor. Programmatically, nothing is gained by such precision. Assume, then, that at least one-quarter of the population of this country is trying to live on $150 per year in 1969 prices.

We have obtained no new information to change the Academia findings that three-quarters of poor families live in rural areas and that 55 to 60% of rural poor families are landless. Of the 25% of poor families living in urban areas, some 40% are concentrated in the San José area and the remainder in other urban areas. In light of our prediction that Costa Rica's most severe challenge will be to prevent the size of the poverty group from growing, we limit gross quantification of the problem of poverty to these facts.

From the Academia study we can say the following about poor families when compared with nonpoor families (in 1973): poor mothers have higher fertility rates than nonpoor mothers and their families are larger; the dependency ratio of poor families is twice that of nonpoor families; the economically-active in nonpoor families exceed that in the poor families by 37%; among those economically-active, the poor are unemployed 3 1/2 times more often than the nonpoor and seek work for the first time without finding it more often than the nonpoor; the illiteracy rate is 66% greater for the poor than for the nonpoor and the poor have fewer years of schooling; their housing is bad more often than is the case for the nonpoor and they also live in more crowded conditions; and they have less access to such services as potable water, electricity, and sewerage.

Comparing urban and rural poverty, the Academia study showed that the urban poor occupy an intermediate position between the rural poor and the nonpoor urban dweller. 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 for 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 FY 1978 Urban Environment and Community Improvement Loan is clearly correct.

The Mission has detailed information about urban poverty in the San José Metropolitan Area (which was the subject of the Urban Assessment leading to the FY 1978 Urban Loan) but not for other urban areas. Because San José does not figure prominently in our FY 1982-86 program, the findings of the San José Urban Assessment are not presented. Hopefully, as a result of the FY 1978 loan and work OFIPLAN is doing on poverty indices (to be discussed below), we will be able to obtain better information on urban poverty in secondary and tertiary cities before the next CDSS.

<u>The rural landless poor</u> are characterized in the <u>Academia</u> study and in the Agricultural Sector Assessment as follows: during the census week only 43% were economically-active; 80% of the economically-active work in agriculture; during the census week 84% were working; average family size is 6.7 people; 25% of heads of family have no formal schooling and only 4% have more than primary school education; 17 percent are migrants; dependency ratios are higher for this group than for any other group; and landless poor families are younger than families in other groups.

Poor farmers are characterized as follows: they have a low percentage of land in permanent crops; they receive lower absolute levels and percentages of total family income from off-farm sources, yet for farms of less than five hectares nearly half of family income comes from off-farm sources; they produce few high-risk crops; they averaged only two to three years of education; the average family size is six members; only 5% use any modern technology; they have high levels of auto-consumption; and they are relatively isolated from market and government services.

None of these findings are surprising. Many of them describe a syndrome of poverty from which it is difficult to break out. However, because Costa Rica has undertaken a major and quite successful development effort over several years, we can speculate that those demonstrating characteristics associated with poverty are poor because they are isolated. This would mean that poverty is concentrated geographically in remote areas, with deviations from this pattern explained by: (1) personal characteristics which prevent one from taking advantage of available government services (e.g.,handicaps, inherited extreme poverty, age, single motherhood); or (2) residence in geographic areas where, despite the availability of government services, opportunities simply no longer exist (due, for instance, to natural resources degradation).

Last year the Mission presented development related data for the five rural regions of the country. That analysis did not allow comparisons among regions except on individual characteristics. Nor did it allow a ranking of the five regions in terms of either poverty or potential. In light of this, the Mission undertook a separate analysis using poverty indicators developed and tested by OFIPLAN.

OFIPLAN's basic needs satisfaction index is a product of a year's work analyzing and selecting appropriate indicators within the Costa Rican context. It consists of data from various sources from which sub-indices were constructed covering nutrition/health status, housing conditions and education levels for 50 rural cantons. Cantons having urban places are not yet included in the exercise but will be in the coming months.

The following indicators were used for the nutrition/health index: infant mortality under one year (1977); infant mortality under one year caused by diarrhea (1973-1979); and height of first grade children (1979); for the education index (all data from the 1973 census), population with no formal schooling; population with some secondary schooling; and school attendance; and for the housing index (1973), overcrowding; a sub-index of type and conditions of housing; and a basic services sub-index covering water, sewerage, and electricity.

These indices were combined to construct an overall composite basic needs satisfaction index which we have used in lieu of an income criteria to measure poverty and to identify the poorest one-third of all rural cantons (see column 1 of the table at the end of this section). Los Chiles, which ranks lowest in basic needs satisfaction (index value of 0), has the highest percentage of population which has never attended school, 40 percent; the second highest percentage of overcrowded housing, 61 percent, and one of the highest infant mortality rate (only five cantons had higher rates), 45 deaths per 1,000 live births. The rural canton which ranked highest on the basic needs index (Palmares, with a value of 100) had the lowest percentage of population which had never attended school, 9 percent; only 25 percent of its residences were overcrowded; and its infant mortality rate stood at 26 deaths per 1,000 births.

To analyze the development potential of the poorest cantons, we constructed a rudimentary index using the variables (1) % forest reserves, (2) % in-migration, and (3) value product per hectare (see column 2 of the table). Percent forest reserves was used to indicate the amount of pressure already on the area and whether or not it has already been degraded. Percent migration indicates whether or not people are attracted to a particular canton, assuming that people reveal needs by migrating. Value product per hectare is used as an indicator of the productivity of the land. High ranking on each of these variables would mean high potential.

Nine of the cantons which ranked highest on the index of development potential are also cantons which are among the poorest in the country. The other cantons are relatively well off and not targeted for further analysis at this time.

This procedure allowed two fairly distinct types of geographic poverty to emerge: poverty areas with a low potential for development and "frontier" areas which appear to have development potential but which have not yet been reached by government services or infrastructure. The poverty areas with potential should receive priority, since fewer trade-offs between growth and equity would appear to exist. This does not imply that those poverty areas without development potential, as measured by this index, should be ignored. Rather, programs and projects appropriate in these areas would be those which might stabilize their deteriorating economic situation.

The poor areas with potential are located in two regions. These are the cantons of Los Chiles, La Cruz, Upala, and Guatuso along the Nicaraguan border; and the Atlantic Basin cantons of Sarapiquí, Matina, Guácimo, Siquirres and Talamanca. Their 1977 population totalled 105,000. All of the cantons, with the exception of Talamanca, have experienced in-migration. In the majority, poor roads and lack of infrastructure are major problems. Most have over 50% of their land still in forest.

The population density in the area along the Nicaraguan border is among the lowest in Costa Rica (10 persons or less per Km^2). This area has the lowest level of composite basic needs satisfaction in the country (see column 1 of the table). The value product per hectare (₡464) is also among the lowest in the country. In spite of this, three of the cantons (Los Chiles, Upala and Guatuso) rank high on development potential because of a high percentage of land in forest, over 65 percent, and in-migration rates averaging between 11 and 14 percent. However, the canton of La Cruz, which straddles the Inter-American Highway as it enters Nicaragua, did not rank in the upper third on potential. In general, more roads and other infrastructure are needed before the area's potential can be realized.

The Atlantic Basin has been experiencing one of the highest rates of in-migration in the country, 18.4% during the 1968-73 period. However, government services are still limited. For example, infant mortality rates in four of the five poorest cantons (Matina, Guácimo, Siquirres and Talamanca) exceed 45 deaths per thousand births. The Atlantic Basin is presently a boom area attracting people from other parts of the country who often bring with them inappropriate agricultural practices. Due to the high rainfall in the area, many of the soils are extremely fragile, and poor land use could ruin large areas of potentially productive land. This makes planning and control of growth critical for this area. Extension/training and credit programs to improve knowledge of and access to ecologically sound agricultural practices of both new farmers migrating to the area and existing poor farmers are needed.

Three pockets of poverty can be characterized as having little development potential: the Nicoya Peninsula cantons of Hojancha and Nandayure; the Southwest Crescent, made up of the cantons of Turrubares, Acosta and Parrita, and the Southern Puntarenas cantons of Coto Brus, Buenos Aires and Golfito. These cantons had a total 1977 population of about 127,000 people. They have a history of resource degradation.

The Nicoya Peninsula cantons are found in a hilly and broken area predominantly devoted to livestock, with pasture accounting for over 70% of the land. There are virtually no forests left. Out-migration is high. Roads are poor in the area, and accessibility to large population centers is limited. Auto-consumption is high among poor farmers (13.4-22%), reflecting the problems of access to markets. Thus, this poverty area combines remoteness with a degraded resource base.

The three cantons of the Southwest Crescent are characterized by a large number of small-farms; around a third of all farms are two hectares or less in size, meaning, in effect, that their owners must be considered among the landless. One of the cantons, Turrubares, had the highest rate of out-migration in the country (31% between 1968-73). Although relatively close to the Meseta Central, poor roads make access difficult. However, a new road under construction along the coast will provide better access and increased tourism to at least a part of this area.

The Southern Puntarenas cantons are characterized by a poor internal roads system which, when linked with the distance to Meseta Central markets, appears to be a serious constraint to development. Of the three cantons, only Coto Brus experienced in-migration; it was also the only one to show development potential.

While these poverty pockets have in general a low development potential, certain types of projects and programs appear appropriate. These include: reforestation programs (such as our FY 1979 Natural Resources Loan), introduction of ecologically-sound, higher value crops, (such as those to be introduced under the Commodity Systems Loan), and extension/farmer training programs in resource stabilizing agricultural practices. In some cases, infrastructure improvements to increase access appear necessary; all of these areas are relatively isolated and have lengthy times to market.

The above analysis and the map accompanying this document show that rural povery is concentrated in remote areas and/or in those experiencing deterioration of the natural resource base. There is a pattern of increasing rural poverty as one moves into the hinterland from the Meseta Central. Attacks on rural poverty must focus on ways to reduce this isolation through infrastructure and basic services improvements and development of viable, higher-valued agricultural enterprises both on and off farm.

Rural Cantons Ranked by Basic Needs
Satisfaction and Development Potential

Index of Basic Needs Satisfaction		Index Value (Low to High)	Index of Development Potential	Index Value (High to Low)
1	Los Chiles	0	Sarapiquí	100
2	Guatuso	0	Valverde Vega	89
3	Upala	4	Paraíso	88
4	Talamanca	6	Alvarado	83
5	Buenos Aires	8	Talamanca	79
6	Turrubares	18	Matina	75
7	La Cruz	18	Pococí	74
8	Parrita	25	Jiménez	73
9	Coto Brus	31	Palmares	72
10	Hojancha	32	Siquirres	71
11	Nandayure	33	Los Chiles	71
12	Acosta	34	Coto Brus	68
13	Guácimo	34	Guatuso	66
14	Matina	39	Upala	65
15	Siquirres	42	Osa	62
16	Sarapiquí	42	Aserrí	60
17	Golfito	43	Guácimo	59

PART III AID ASSISTANCE STRATEGY

A. Objectives

Costa Rica is at a crucial point in its national development. Buffeted by international events --political instability and resulting economic dislocation in Central America, worldwide inflation, growing protectionism and astronomical petroleum prices-- it must at the same time make major changes in its development strategies. The result is a growing domestic crisis of confidence, affecting both the economic and political spheres.

In the 1980's, Costa Rica will have to work harder to stand still: to enable the bulk of its people to maintain, not improve, their standard of living. Reducing the size of the poverty group will be the second order of business.

U.S. policy is to help Costa Rica keep its status as a social, economic and political model in Central America. AID contributes to this policy with a development program aimed at helping Costa Rica successfully make the transition from old to new strategies. Because of resource limitations, we will concentrate on innovative and risky or politically difficult programs, leaving programs requiring major capital investment to other donors. We must also leave the short-term balance of payments and domestic fiscal crises to the large IFIs, because AID simply no longer seems able to address these types of problems outside of the supporting assistance program.

The analysis in Part II showed how the country's balance of trade has reached the point where it is consistently and excessively negative; how a lagging agricultural sector has contributed to this problem; how the public sector has grown inordinately; how wasteful past efforts have been of the country's natural resources; and how concentrated development has been on the Meseta Central.

Overcoming these problems constitutes the Mission's set of objectives. Two of these objectives relate primarily to productivity and two to income distribution; they are:

1. Increase poor people's access to the factors of production;
2. Increase production and productivity in a manner consistent with the first and third objectives;
3. Reverse natural resource degradation; and
4. Decentralize development by promoting activities in lagging regions,when this is in accord with the second objective, and by increasing community-level participation in development planning and project execution.

B. Strategy

1. Rural Development

Costa Rica remains predominantly rural, and solutions to its most serious problems will need to be applied to the rural economy. Thus, this sector receives our major emphasis. The development-related characteristics of both the landless and landed rural poor were presented in Part II B. Constraints affecting one or another or both groups, to varying degrees, include:

a. A degraded and/or fragile natural resource base. The natural resource conservation problem is so overriding in importance and so prevalent throughout the country that it must be attacked across broad geographic areas and through national policies, having as its objective the maintenance and then enhancement of the country's productive capacity, both on-farm and off. The problem requires integrated programs of forest management, land-use planning, soil conservation, erosion control and improved agricultural and livestock practices. The Mission's strategy is to help the GOCR develop the capability to design and implement appropriate and cost-effective, multi-disciplinary natural resource conservation programs and to ensure that other development efforts are environmentally sound.

b. Lack of access or ability to use productive land, capital and technologies. In part this is due to pressure on the land and the fact that the poor are often so asset-less that they cannot get credit and they cannot afford to use available technologies which, in any case, usually have not been developed with them in mind. It is also due to the low level of education (two to three years) most rural poor people have had.

The Mission's direct approach to the poor's lack of access to factors of production is three-fold: (1) to support the GOCR's ability to plan and carry out innovative agrarian restructuring programs, such as titling activities and non-traditional as well as more effective traditional colonization schemes; (2) to support cooperatives, worker-owned and -operated firms and other organizational forms which make it easier for the poor to get access to assets; and (3) to encourage credit programs which permit participation by the poor.

Programs to increase the poor's access to factors of production will emphasize motivational, technical and organizational training, both nonformal and formal, for members of the target group.

c. Low productivity and production due to lack of agricultural technologies appropriate for the small farmer and relative isolation from markets and government services. Our strategy is to get at the issue of low productivity directly through support of the GOCR's expansion of agro-industrial activity and through small farm technology research and extension to diversify agriculture, to generate employment in both rural and urban areas and to reduce the relative importance of low value-added, import-substituting industrialization. Agro-industry, particularly for export, will be a major investment area for the GOCR in the next several years and will involve all of the major donors. AID's involvement in this field will be in keeping with its stress on innovation and risk-taking and impact on the target group. Indirectly, increases in the poor's access to factors of production and improvements in the natural resource base on which production is based will also increase productivity and production.

d. Concentration of development efforts and investment on the Central Meseta, leading to insufficient infrastructure and opportunities for off-farm employment in outlying areas. The Mission's strategy is to encourage efficient locational decentralization. As Part II B showed, poverty in Costa Rica is especially prevalent in areas distant from San José. On the face of it, this would call for a decentralized attack on poverty. However, this overlooks a number of factors, including infrastructure requirements for the delivery of productive services, existing GOCR basic human needs programs and ongoing Mission activities in these poor areas, which are substantial. Our emphasis will be on the development of productive solutions; and they may not always be available where the poverty exists. To this end, it may be necessary to draw people out of current poverty areas into areas of opportunity, particularly other rural areas or provincial urban areas.

Thus, the rural --or poverty-- dimension of our decentralization strategy contains a very strong *ceteris paribus* qualifier. However, we see a strong need to strengthen the capacities of existing rural market centers/administrative units or the local representatives of national agencies so that they more effectively support equitable rural development. During the planning period, program activities directed at this objective, with the exception of self-help community activities, will be in the fields of urban development and administrative reform, which are discussed below.

2. Urban Development

During the CDSS period the Mission will expand its urban program to include cities and towns outside of San José to reach poverty which is prevalent in these places and to reinforce Costa Rican decentralization efforts by strengthening a system of urban places necessary to maximize rural development.

Urban poverty is characterized, in particular, by low labor force participation and poor housing in deteriorated neighborhoods. In these two indicators they are worse off than the rural poor. Urban unemployment and underemployment are also rising. The 1978 Urban Employment and Community Improvement Loan, which focuses on the San José Metropolitan Area, is an effort to attack these causes of urban poverty. The loan and a companion HG are financing job placement and training, development of small industries, housing and neighborhood upgrading, and policy development and analysis in the urban and housing areas. The program, however, is just a beginning. Urban poverty, while concentrated in absolute numbers in San José, is actually worse in other areas of the country, where almost 60% of all poor Costa Rican urban dwellers live. Concentrations of poverty are found in the "ring" cities (Alajuela, Cartago, Heredia), Limón, Puntarenas and small cities like Liberia.

Small and medium sized urban places fulfill important functions for their rural hinterlands, and investment in towns and cities off the Meseta Central can therefore have a favorable impact on the rural sector as well. The inputs and support services which agricultural development requires can best be located in urban centers. While some small towns in Costa Rica fill these roles, the country is not sufficiently urbanized or spatially structured to support a dynamic and modern agricultural sector. A better urban spatial pattern could also present more permanent alternatives to the landless poor, perhaps relieving some of the pressures on San José, which already contains about 25% of Costa Rica's total population.

Prior to the CDSS period, a program to strengthen municipal and local community development capacity is planned for small towns in rural areas. During the 1982-86 period the Mission expects to address the problem of urban poverty in secondary and tertiary cities, while facilitating rural productivity through stronger rural-urban linkages. Among the urban centers outside of the central region which appear to have the most potential for growth are: Buenos Aires, Cañas, Ciudad Quesada, Guápiles, Liberia, Nicoya, San Isidro, Santa Cruz, Siquirres, and the port cities of Limón and Puntarenas. Programs would replicate successful aspects of the present Urban Loan, while also attending to agriculturally related infrastructure needs of the selected urban centers. Jobs, training and entrepreneurial opportunities for the urban poor would be stressed and efforts would relate directly to the overall objectives of increasing productivity and the poor's access to factors of production, while promoting efficient decentralization. Because of the shortage of adequate housing and the state of related physical infrastructure in the poor areas of secondary and tertiary cities, HG support would be included as an important component of any program targetted to these centers.

3. <u>Science and Technology/Energy</u>

Science and technology, with special emphasis on energy, has been selected for programmatic attention because of its key role in enabling Costa Rica to make the transition it needs to make in the 1980's. Although being able to import technologies from beyond its borders offers certain advantages to a country like Costa Rica, the resulting technological dependence also has disadvantages: less-than-optimum resource utilization, with negative consequences for both income distribution and productive efficiency; and failure to develop an indigenous science and technology capacity, with the result that technologies utilizing locally available resources are not developed because of lack of knowledge about or interest in them. A Costa Rican development strategy, which has among its principal objectives the promotion of more efficient productive structures and the better utilization of human and natural resources, requires that the Government take an active role to ensure that technologies applied to the productive process are adapted to the extent possible to local circumstances, needs and resources.

Costa Rica's development plan cites science and technology as important to "promoting a structure of production adequate for the integral development of the Costa Rican people." Thus this program area addresses two of the Mission's objectives: increasing production and productivity and increasing poor people's access to the factors of production. In addition, because we have identified natural resources as a priority area for attention under this program area, a third Mission objective is addressed.

Energy and small (particularly agricultural) industry have also been identified as priority areas for research, development and extension. We see science and technology, including energy, as central to most of the other programs we will be undertaking in the CDSS period. As such it is allocated the second-largest portion of funds (see PAPL Table). Program activities will build on the successes and failures of the FY 1979 Science & Technology Loan. While natural resources and small industry will continue to receive attention, other sectors (as well as other functions and institutions) may be included as well. Energy is singled out for special attention because of the negative impact of increased petroleum prices on the economy. The Mission already is addressing the energy issue through the current Science and Technology Development Loan. But that project focuses on traditional, small scale approaches. The Mission proposes, on the basis of an assessment of alternatives to imported petroleum to be conducted in FY 1980, to address directly petroleum conservation in the industrial and transport sectors. It is believed these are the only areas (excluding continued development of hydro-electric potential, which is already under way) which are capable of significantly reducing petroleum imports. The Mission would support pilot projects to test new methods of energy production, alternative use of traditional energy technologies and applied research.

4. Population

In the last twenty years demographic trends in Costa Rica have been characterized by a sharp decline in the birth rate, dropping from 48 births per 1,000 inhabitants in 1960 to about 32 per 1,000 today. More significantly, the fertility rate per woman decreased from a high of 7.3 in 1960 to 3.7 in 1976. Expert speculation is that these decreases were due to the rapid modernization that took place during the period and were reinforced by a vigorous family planning program which was initiated in 1968. Recent evidence, however, indicates that the downward trend in the fertility rate may have stopped or is possibly reversing --it rose slightly to 3.80 in 1977 and is estimated to be 3.87 in 1978. It is possible that this new trend is temporary, but it deserves close observation during the next several years, especially in light of the current Costa Rican administration's emerging position on population matters.

The GOCR's recently announced population policy takes as its fundamental principle "respect for the individual and the right of the couple to freely choose and determine the size and spacing of its family." Programmatic consequences so far are that (1) the budget for the National Population Committee (CONAPO), submitted through OFIPLAN to the United Nations Fund for Population Activities for the period 1980-83, was reduced. This will affect primarily mass-media propaganda activities; (2) adequate levels of family planning services (including the provision of contraceptive devices and information on their use) will be maintained and sex education continued; and (3) CONAPO's operations will follow policies set by the National Commission for Population Policy created in 1978. The latter, with the support of its technical secretariat, OFIPLAN, will have primary responsibility for conducting socio-demographic studies and analyses, weighing their results, and formulating GOCR policy.

It is clear that OFIPLAN wants to broaden the focus of population programs to include the development impact of demographic variables. While this probably does not mean reducing provision of family planning services, it does mean that initiative for continuing to practice contraception will rest mainly with the individual. In a society where 77% of the at-risk women practice contraception, this is unlikely to pose a problem. But AID should anticipate continued involvement in service delivery and IE&C activities as necessary, at least in the beginning of the CDSS planning period. Bilateral involvement will be closely coordinated with OFIPLAN.

Some Costa Ricans are concerned that the fertility rate is dropping too fast. They point to low population density in certain geographic areas and present difficulties in filling some types of jobs (coffee pickers, brick-layers, maids) and project that these difficulties will become worse in the future. The structural reasons for finding certain jobs hard to fill are overlooked, as is the large increase in people who will join the labor market in the 1980's, products of the rapid growth in the late 1950's and early 1960's --at a time when the public sector will no longer be able to absorb them.

While most of the people the economy must deal with in the 1982-86 period, have already been born, over the longer run the population dimension of each of the Mission's four objectives is powerful and not well understood. Therefore, the Mission proposes to add to its traditional involvement in family planning services a broader approach which will seek to explain the dynamics of past and current demographic trends and what they have meant and will mean for Costa Rica's development. The decennial census to take place during the period makes this approach particularly timely.

5. Administrative Reform

Enough has been said in this document already to show the need for improving the efficiency and effectiveness of the public sector. This is a high priority for the current GOCR Administration and it has elaborated ambitious plans to "regionalize" and "sectoralize" development planning functions as well as some actual administrative units.

Our strategy is more modest, although we assign the problem a great deal of importance and do see public sector inefficiency affecting virtually all of our programs. We propose to work with key agencies to help them improve some of their basic administrative systems which presently inhibit their ability to carry out assigned functions efficiently. These include such basic systems as budget preparation and control, procurement, program evaluation and management auditing. Agencies of particular interest are the Ministry of Finance, OFIPLAN, the Controller General and the Costa Rican equivalent of the GSA.

In addition we propose to help strengthen the administrative capacities of selected development agencies working in areas of particularly high priority from the perspective of our objectives and sectoral emphases. The focus would be on helping these agencies deal with changing strategies: the need to expand exports, reduce costs of social service delivery, reach the most remote rural dwellers and, in general, find new solutions to a growing number of problems. Our current thinking is that the following agencies would be involved: the Center for Export Promotion, the Family Assistance Program, the Social Security Institute and the Ministries of Education and Health.

Because of the sensitivity of this proposal and the fact that the present GOCR Administration will change before it could be implemented, as well as the technical advisory nature of any program of this type, we have included it as a small, multi-year grant to be funded in FY 1983. It should be noted, however, that we have already started working in this area with the assistance of the Development Support Bureau's Office of Rural and Administrative Development; and expect this effort to continue. Our FY 1979 National Development Information System Loan will no doubt show other areas for possible attention.

C. Program Instruments

Last year the Mission proposed as part of its general program strategy that Costa Rica be considered a model for innovative programming for middle-income countries and that lessons learned here be systematically disseminated outward. This year, with short- and medium-term macro-economic issues more on our minds, we are less willing to posit Costa Rica as an across-the-board model, although perhaps there are lessons to be learned from adversity too, such as the effect on the poor of stabilization programs. Despite this caveat, there is value to be obtained from disseminating project-level experiences from Costa Rica. It is also necessary to apply high quality technical approaches to Costa Rica's problems, higher than our small Mission can maintain by itself. We have thus continued to develop the mutually beneficial relationship with the DSB which we advocated last year: we get greater, more sustained access to DSB's technical resources; DSB gets a reality check for its programming and, hopefully, some results of interest beyond Costa Rica's borders. We have been pleased with the response of the DSB. Contacts with the Rural and Administrative Development Office (DS/RAD) in particular have been close, and we are about to initiate a long-term liaison whereby a DS/RAD project finances a research analyst resident in Costa Rica to help the Mission deal analytically with the subject of participation and rural development while he carries out research on the same subject on behalf of his DSB-grantee university. RAD and other DSB technical offices have also been helpful in providing short-term, frequently urgent, technical advisors. This past year has seen the start-up of the kind of relationship proposed last year. By the CDSS planning period we expect to have developed the relationship to the point where there is routine exchange of information and expertise among this Mission, Costa Rica, DSB and appropriate regional development institutions. With respect to the latter, we are already working on a four-way linkage in the area of development adminstration: DSB, USAID, GOCR and ICAP (Central American Institute of Public Administration), which model may be appropriate for other regional institutions as well.

With regard to the strictly Mission-funded program, we propose a mix of project loans, which are most appropriate for the kind of innovative programming we will be doing, and accompanying grants to provide specialized technical assistance, evaluation and dissemination activities beyond the capacity of Mission staff. In addition, we propose grants to finance high priority, sensitive assistance not appropriate for loan funding.

Expanded funding is proposed for Operational Program Grants (OPGs) to encourage private sector self-help development activities and for the Special Development Fund (SDF) to support similar efforts by local communities. Both programs would support the participation and decentralization goals of the GOCR. The SDF will focus on the poorest communities in the country and will complete the shift now underway to small-scale productive projects from the current emphasis on infrastructure. The SDF has become an important device for AID/Peace Corps collaboration, although we also encourage Peace Corps involvement in other AID projects. 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.

D. Impact of AID Programs During the Planning Period

By their nature AID programs will be designed primarily to find or demonstrate new solutions to difficult problems associated with the development transition facing the country. We expect the major impact to be that of pilot efforts --the replicable elements, those things that work, will find their way into larger permanent programs in which AID generally will not be involved. In natural resources, for instance, we are helping the country to develop the capacity to undertake conservation activities which are supportive of productive use of those resources. In science and technology, while we expect specific solutions to emerge from project activities, we are equally interested in generating a self-sustaining interest and capacity to carry out scientific and technological research and development related to high priority problems facing the country. In our urban programs we hope to encourage the national government to work in a coordinated way to address location-specific problems, whether in urban slums or in rural market centers. We expect to be able to demonstrate that urban poverty can be attacked through productive solutions specially designed to reach the hard-core poor rather than through extension of welfare services.

In population, we do not expect that use of our funds will directly affect fertility rates. Rather, we expect to reinforce, materially and psychologically, those who are engaged in the provision of family planning services and to help the GOCR take the demographic dimension more into account in broader development planning and programming.

In the rural sector, in general, the impact of our programs will be to help demonstrate productive solutions to poverty either directly through increasing the poor's access to resources, or indirectly through incorporating the poor into investments made for other purposes --e.g. to increase agricultural exports and to diversify industry, through innovative ownership and cooperative forms and through appropriate selection and development of investments.

Finally, with respect to administrative reform our aim is to support clear GOCR intentions to make the public sector more efficient and also to encourage experimentation with lower-cost development delivery systems.

In summary, at the program level at which the CDSS is written our impact will be in the form of demonstrations of innovative solutions. We will help the Costa Ricans chip away at the target group even under the conditions of austerity it will be facing over the next five years.

PART IV ASSISTANCE PLANNING LEVEL

Last year our CDSS presented a Proposed Assistance Planning Level (PAPL) of $17 million against an Indicative Planning Allocation (IPA) of $8 million. We argued for the larger amount on the grounds that:

- the most important requirement for successful development --host country commitment-- receives the lowest weight of the three variables in the IPA formula;
- the IPA formula, and the prescribed content of the CDSS, reflect AID's inability to come to grips with the development problems of middle-income countries;
- Implicit in the IPA formula is the incorrect assumption that, other things being equal, continued growth with equity becomes easier as per capita income increases; and
- the IPA methodology treats all developing countries as if they had equal importance to the United States; the proximity, historic ties and interdependence our country has with Latin America --and with a volatile Central America-- are ignored, as are such considerations as human rights performance.

These observations continue to be valid. While the weight in the IPA formula given to commitment has been increased slightly, the measurement of this variable is so faulty that the results lose meaning. Our comments on the PPC-prepared 102(d) commitment and progress indicators are contained in 79 SAN JOSE 4940. We will merely note here that much of the data used to make the commitment rating is based on central ministry expenditures. In Costa Rica, autonomous agencies play a major role in providing nutrition, health, agriculture, and education services. To arrive at valid conclusions on the country's commitment, these expenditures --which amounted to 64% of the total national budget in 1978-- must be taken into account. Thus, rather than rank Costa Rica above average on only six of twelve commitment indicators, we would have rated it well above average on all indicators and would have given greater overall weight to commitment.

This year we present a PAPL for each year between FY 1982 and FY 1986 which is equivalent to $15 million in 1981 prices, assuming roughly 10% annual inflation. This is our already-approved Assistance Planning Level through FY 1985 and is close enough to last year's average PAPL not to argue with. This funding level will permit us to have a developmental impact on Costa Rica at a very important time in this country's development,while showing support for this beleaguered outpost of democracy, stability and human rights in Central America.

As stated earlier, we have no strong cause for optimism that the economic difficulties facing Costa Rica as the decade begins will be resolved during this CDSS planning period. We suspect they will worsen because, as committed as Costa Rica is to equitably-shared economic progress for its citizens, it has neither control over many of its difficulties nor quick solutions for those it can control. As we said last year, Costa Rica is at a cross-roads. The development strategies it followed through the mid-1970s will not be adequate for the future. It needs to find new strategies and it needs to correct past mistakes. This will be difficult and expensive and, in a period of severe economic austerity and political and social dissatisfaction, the search is apt to be timid without outside support. We are not proposing balance of payments or budget support for Costa Rica, although we seriously considered this option. For the foreseeable future, at least, we would expect the IMF and the IFIs to provide this kind of assistance.

What we propose for AID is a program that concentrates on helping Costa Rica tackle the long-term problems which are at the base of its current economic difficulties in such a way that the poor benefit. Because of the fiscal crunch which will continue to face the country, we propose to keep the counterpart requirement for our loan activities much lower than its current 50-55%. In a sense, we are proposing that AID resources substitute for Costa Rican resources at the innovative margin which is apt not to be done otherwise. This is different from the restructuring of investment which we normally try to do and is warranted by the difficult economic straits we expect Costa Rica to be in during the planning period. In broader terms, it is justified to help Costa Rica maintain its current status as a model of serious and effective growth with equity.

This Mission has been imaginative in its use of staff resources and program instruments:

-- we have instituted the practice of hiring professionals from among the spouses of US direct hire employees already assigned to post. This not only is supportive of equal opportunity objectives but is cost effective as well;

-- we have through time developed a highly capable Costa Rican staff which bears a large share of program implementation responsibility;

-- we are trying to increase our OPG program in such a way that it complements our loan portfolio and,at the same time,extends our human resource capability;

-- we have involved the Peace Corps in the management of our most labor-intensive project, the Special Development Fund, to the benefit of both agencies; and

-- we have designed loans of reasonable --efficient-- size and are committed to continue this.

We can carry out a high quality program of the content and financial level proposed with the ceiling on US staff we currently have: 15 regular U.S. direct hire, 1 USDH on detail to the JAO, 2 IDIs and 2 part-time resident hire professionals.

The level of Costa Rican staff would also remain the same, although we will need to seek adjustments in the mix --currently 19 FNDH, 7 Trust Fund and two PSCs-- because of declining purchasing power of the Trust Fund.

Proposed Assistance Planning Level

	Fiscal Years ($ millions)					
	82	83	84	85	86	TOTAL
Rural Development						
Agrarian Restructuring						
Loan					9.0	9.0
Grant					.5	.5
PCGP (non-add)						(5.0)
Small Farmer Research/Extension						
Loan				5.0		5.0
Grant				.5	.5	1.0
Agro-Industry/Coops/Marketing						
Loan		14.0			9.0	23.0
Grant		.7				.7
OPGs					1.0	1.0
Natural Resources						
Loan				12.0		12.0
Grant				.3		.3
OPGs				1.0		1.0
Urban/Local Development						
Secondary/Tertiary Cities						
Loan			7.0			7.0
HG (non-add)			(10.0)			(10.0)
Self-Help Community Efforts						
Grant (SDF)	.2	.2	.3	.3	.4	1.4
OPGs	1.1	.3	1.2		.5	3.1
Science & Technology/Energy						
Loan	12.5		8.0			20.5
Grant	.5		.6			1.1
Population Services/Dynamics (Grant)	.3	.4	.4	.4	.5	2.0
Administrative Reform (Grant)		1.0				1.0
PD&S	.4	.4	.5	.6	.6	2.5
TOTAL BILATERAL	15.0	17.0	18.0	20.0	22.0	92.0

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ERRATUM

p. 269. Tables G.1 to G.4 have been included in this Report in their French version. The English version of these Tables is given overleaf.

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TABLE G.1. TOTAL OFFICIAL FLOWS FROM OPEC MEMBERS, 1973-1978

Net disbursements

Donor Country	$ million						As per cent of GNP					
	1973	1974	1975	1976	1977	1978p	1973	1974	1975	1976	1977	1978p
Algeria	29.8	51.4	42.2	66.6	73.1	55.2	0.34	0.41	0.29	0.41	0.38	0.23
Iran	4.9	739.4	936.1	807.3	315.5	333.4	0.02	1,59	1.79	1.22	0.38	(0.40)
Iraq	11.1	440.2	254.4	254.7	135.2	211.2	0.21	4.15	1.92	1.59	0.70	0.96
Kuwait	555.7	1 187.1	1 712.2	1 875.7	1 864.6	1 150.8	9.21	10.90	14.23	13.28	13.04	6.10
Libya	403.8	263.2	362.8	363.2	287.0	548.9	6.25	2.21	3.21	2.45	1.62	3.01
Nigeria	5.7	134.8	347.5	176.8	35.7	7.7	0.05	0.60	1.31	0.52	0.09	0.02
Qatar	93.7	217.9	366.7	240.3	265.9	133.6	15.62	10.90	16.90	9.79	10.65	4.61
Saudi Arabia	334.9	1 622.1	2 466.7	2 817.3	2 709.7	1 746.7	4.43	7.02	6.67	6.70	4.86	2.78
UAE	288.6	749.4	1 206.6	1 144.5	1 395.2	761.4	15.96	11.12	16.29	11.89	12.11	6.63
Venezuela	17.7	483.4	473.8	392.2	510.5	346.7	0.11	1.66	1.75	1.26	1.43	0.85
Total	1 745.9	5 888.9	8 169.0	8 138.6	7 592.4	5 295.6	1.89	3.35	4.01	3.30	2.54	1.59

TABLE G.2. CONCESSIONAL ASSISTANCE BY OPEC MEMBERS, 1973-1978

Net disbursements

Donor Country	$ million						As per cent of GNP					
	1973	1974	1975	1976	1977	1978p	1973	1974	1975	1976	1977	1978p
Algeria	25.4	46.9	40.7	53.6	46.7	43.1	0.29	0.37	0.28	0.33	0.24	0.18
Iran	1.9	408.3	593.1	752.5	251.2	213.2	0.01	0.88	1.13	1.13	0.30	(0.26)
Iraq	11.1	422.9	218.4	231.7	56.0	144.2	0.21	3.98	1.65	1.44	0.29	0.66
Kuwait	345.2	622.5	976.3	615.3	1 443.0	856.4	5.72	5.72	8.12	4.36	10.09	4.54
Libya	214.6	147.0	261.1	93.6	109.6	141.5	3.32	1.23	2.31	0.63	0.62	0.77
Nigeria	4.7	15.3	13.9	82.9	64.4	38.0	0.04	0.07	0.05	0.25	0.16	0.08
Qatar	93.7	185.2	338.9	195.0	194.3	100.8	15.62	9.26	15.62	7.95	7.83	3.48
Saudi Arabia	304.9	1 029.1	1 997.4	2 407.1	2 400.8	1 455.3	4.04	4.46	5.40	5.73	4.30	2.32
UAE	288.6	510.6	1 046.1	1 060.2	1 229.4	616.5	15.96	7.57	14.12	11.02	10.67	5.37
Venezuela	17.7	58.8	31.0	102.8	51.5	94.6	0.11	0.20	0.11	0.33	0.14	0.23
Total	1 307.8	3 446.6	5 516.9	5.594.7	5 846.9	3 703.6	1.42	1.96	2.71	2.27	1.96	1.11

TABLE G. 3. CONCESSIONAL ASSISTANCE BY OPEC MEMBERS IN 1977

$ million

Donor Country	Commitments			Net Disbursements			
	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total	As % of GNP
Algeria	10.0	51.5	61.5	10.0	36.7	46.7	0.24
Iran	85.1	205.1	290.2	189.1	62.1	251.2	0.30
Iraq	108.6	27.0	135.6	27.6	28.4	56.0	0.29
Kuwait	1 039.4	213.7	1 253.1	792.2	650.8	1 443.0	10.09
Libya	24.6	111.8	136.4	25.2	84.4	109.6	0.62
Nigeria	—	61.5	61.5	1.4	63.0	64.4	0.16
Qatar	104.6	47.6	152.2	176.7	17.6	194.3	7.83
Saudi Arabia	2 653.1	449.2	3 102.3	1 687.8	713.0	2 400.8	4.30
UAE	1 141.9	108.1	1 250.0	977.6	251.8	1 229.4	10.67
Venezuela	—	147.2	147.2	—	51.5	51.5	0.14
Total	5 167.3	1 422.7	6 590.0	3 887.6	1 959.3	5 846.9	1.96

TABLE G.4. CONCESSIONAL ASSISTANCE BY OPEC MEMBERS IN 1978[a]

$ million

Donor Country	Commitments			Net Disbursements			
	Bilateral	Multi-lateral	Total	Bilateral	Multi-lateral	Total	As % of GNP
Algeria	234.1	23.4	257.5	5.5	37.6	43.1	0.18
Iran	7.0	5.0	12.0	147.0	66.2	213.2	(0.26)
Iraq	558.9	21.3	580.2	120.3	23.9	144.2	0.66
Kuwait	1 116.0	125.3	1 241.3	590.1	266.3	856.4	4.54
Libya	569.3	51.1	620.4	47.4	94.1	141.5	0.77
Nigeria	—	16.3	16.3	—	38.0	38.0	0.08
Qatar	238.7	10.3	249.0	48.0	52.8	100.8	3.48
Saudi Arabia	3 055.2	362.2	3 417.4	1 051.4	403.9	1 455.3	2.32
UAE	782.8	62.5	845.3	514.7	101.8	616.5	5.37
Venezuela	—	14.8	14.8	—	94.6	94.6	0.23
Total	6 562.0	692.2	7 254.2	2 524.4	1 179.2	3 703.6	1.11

a) Provisional data, especially for bilateral disbursements.