

USAID/COSTA RICAFY 1985 CDSS SUPPLEMENTTABLE OF CONTENTS

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CDSS SUPPLEMENT

Part I: Introduction

USAID/Costa Rica's approved FY 1984 Country Development Strategy Statement (CDSS) proposed a multi-element assistance strategy to help stabilize and reestablish the bases for long-term, broadly-based dynamic growth in the Costa Rican economy. Achievement of this goal requires that we move simultaneously in a number of different areas which are responsive to the Mission's major strategic objectives. Those objectives include: (1) economic stabilization and recovery; (2) strengthening of the financial system; (3) promoting exports and investment; (4) improving economic policy making and public administration; and (5) improving coordination between the public and private sectors.

The purpose of this CDSS Supplement is to elaborate further on the means for delivering U.S. economic assistance to Costa Rica to achieve the USAID's strategic objectives. As will be seen in Attachment 1, USAID's involvement in the Agency's priority areas intensifies significantly during the planning period.

Part II of this paper relates the Agency's priority areas to USAID/CR's proposed program interventions for attainment of its objectives. Because the priority areas are inter-related and mutually reinforcing, we believe that, when working together with the appropriate mix and level of resources, they will function as a powerful motor for Costa Rica's recovery and development. Attachment 3 discusses implications of USAID/CR's strategy and levels of assistance on staffing requirements.

PART II: The Mission Strategy

A. Policy Reform

1. The Need for Policy Change: The structural nature of Costa Rica's economic crisis has been fully documented in the FY 1984 CESS, the CBI Implementation Plan and two recent PAAJ's. Summarizing, after several years of mismanagement, Costa Rica's economy buckled under the weight of a huge public sector deficit, an increasing external debt and a sudden, adverse shift in the terms of trade. Decreased production, precipitous devaluations, high inflation and unemployment followed in tandem as the GDP plummeted. In previous years, the economy had been buoyed up by a series of instruments designed to bring in investments, foreign financing and raw materials and to ward off imports. Industry and the tax base expanded. And, in response to ever increasing demands for infrastructure, social services, and employment,

the public sector grew like topsy. For two decades these policies brought economic growth and social progress. Now, after three years of economic instability and stagnation, Costa Rica finds itself unable to service its huge foreign debt. Moreover, Costa Rica, with large fiscal deficits, an oversized, expensive and muscle bound public sector, inefficient state owned banks and industries, and an industrial sector which is overprotected and mostly non-competitive on the world market, is mired in an ambiguous policy environment which does not nurture exports and foreign investment. Finally, Costa Rica has lost the confidence of the international trade and banking communities. Therein lie both the structural problems and the disequilibria which threaten to transform the economic crisis in Costa Rica into political troubles.

Over the next five to ten years, the industrial sector will have to be converted from one excessively protected by high effective rates of tariffs, quotas and other non-economic facilities into an efficient, export-oriented business. Such a transition will require substantial new investment. Obviously few investors are willing to commit resources in an unstable economic environment in which the cards are seen by many to be stacked against the private sector. In the short-term, therefore, the highest priorities are to: a) bring about economic stability while sharing the attendant sacrifices in ways which protect those on the lower rungs of the economic ladder, and b) renew the confidence of private sector entrepreneurs and investors.

2. Mission Goals in Policy Reform: Over the five year period covered by the CDSS, the Mission has formulated three major inter-related goals which, if achieved, will allow the Mission to phase out its balance of payments program and shift emphasis to long-term development before the end of the planning period. These are:

- o To help reestablish dynamic growth and development in the Costa Rican economy;

- o To assist reorient the economy from its present industrial import substitution bias to one in which industry contributes to export-led growth; and,

- o To assist in the short term in bringing about economic stabilization and recovery which is the sine qua non of continued political, economic and social stability in Costa Rica.

Policy Dialogue Underway and Planned Efforts

a. Reinforcing the IMF Dialogue: Since the preparation of the CDSS, President Monge's Administration, with IMF assistance, has undertaken an austere Economic Stabilization and Recovery Program. The Mission has conditioned its Economic Support Fund programs upon the execution of the GOCR/IMF Standby Arrangement and upon the adherence to its targets. During the planning period, the Mission

expects to conclude four additional ESF programs which will provide badly needed foreign exchange to import raw materials, intermediate goods and spare parts. Local currency generated from these programs will, to the maximum extent practicable, be channeled to the private sector to help meet working capital requirements and take advantage of opportunities to increase export production and employment. Additionally, through a DA project, the Mission proposes to assist the GOCR with technical assistance and other resources required to undertake economic policy studies, improve the export and investment environment, as well as to increase government revenues and productivity and to decrease expenditures through appropriate administrative reforms.

b. Strengthening the Financial System: Reaching the private sector's needs more effectively requires, as one of the first priorities, a reliable, market-oriented banking and financial sector. The Mission has engaged in policy dialogue on this issue to the point that the GOCR has agreed, as a condition precedent to disbursement of ESF funds beyond March 1983, to sponsor a legislative proposal which would allow private banks to participate in all Central Bank (BCCR) credit lines. Lines of credit from the BCCR are currently restricted to the state owned commercial banks of the National Banking System. USAID will continue the thrust to strengthen the private sector banks through intensive policy dialogue and the use of ESF local currency generations. The Mission also plans to use DA funds in FY 1985 and 1986 as the implementation of policies pave the way for a more productive

private banking sector which, in turn, will increase export levels and employment opportunities.

c. Export and Investment Promotion: The Mission through its continuing policy dialogue, has been instrumental in the GOCR's creation of the Office of Minister-Counselor for Exports and Investment. This new office began operations on March 14, 1983. Mission strategy is to provide assistance to the Minister to help prepare and implement an export promotion and investment strategy. Tentatively we plan to fund a local currency grant of \$2-3 million from ESF local currency generations to finance a foreign trade development effort which will include a One-Stop Investment and Export Promotion Center, and assistance for Free Zone Development.

The Costa Rican Coalition for Development Initiatives (CINDE), which was also conceptualized and initiated with Mission assistance, represents another important institutional development. CINDE provides producers, exporters and investors with ESF/CBI local currency grant funds for feasibility analyses, training, technical assistance and other "start up" costs for new and expanded operations in Costa Rica. The Mission strategy calls for continuing support to CINDE, as required, through ESF local currency generations for the full CDSS period.

d. Improved Policy Formulation and Administrative

Reform: The Title I program has been used very effectively in the dialogue on agricultural pricing policy. The last agreement contained self help measures which required freeing up the prices on basic grains. This strategy was completely successful as prices for basic grains are now above world market prices. Presently, there are almost no pricing disincentives to increased agricultural production. Internal consumption quotas do exist, on a series of products, so that prices could become a problem. Over the long term, the Mission's strategy is to be watchful for new opportunities to eliminate pricing and unwarranted quota constraints whenever they may arise to inhibit production. In the agricultural area USAID strategy now is to support analyses of technical and other existing or potential constraints to production.

Among other GOCR policies which the Mission sees as most desirable are a commitment to a reduced public sector role in the economy, the maintenance of an exchange regime favorable to exports, the reduction of export quotas and controls, decreasing incentives for import substitution industries, and a broader commitment to free markets in general in order to foster more efficient resource allocation. A set of policies designed to foster greater internal capital formation and fiscal and other policies which have this aim are also needed.

Some of the above policy prescriptions will not come naturally to the GOCR, and it is likely that they will only be partially attained. They are not totally compatible with those of the ruling Liberación Nacional party which, even though it has good relations with the established industrial sector, is, after all, a social democratic party. More fundamentally, however, through our policy discussions with them, the Mission has come to the conclusion that many high-level GOCR policymakers do not share our view that the basic causes of the Costa Rican economic crisis are structural. Rather, they believe, the causes are conjunctural. Many view the crisis as the result of the coming together of a very unfavorable shift in the terms of trade compounded by bad economic management of the outgoing Carazo Administration (the facts partially support this view). Costa Rica has had to come through three other external adjustments within the last twenty years. The policy tools traditionally used to make the adjustments have been (1) multiple exchange rates and (2) public sector austerity. These tools have been resorted to once again by the present administration, some of whose policymakers are not convinced that this crisis differs fundamentally from those of the recent past.

This GOCR administration like that of most democratic countries has policy concerns which may not be totally compatible. We are convinced that a deep commitment exists within the GOCR to the reestablishing of economic stability. There is also a clear desire to produce more and export more, but insufficient attention is

being given on how to achieve the latter. Similarly, although greater foreign private investment is also welcomed, it is not being as actively pursued as it should be. There is an appreciation of the requirement for even greater economic sacrifice; however, concern about equity in the distribution of that sacrifice is also very much present and that concern often appears to policymakers to conflict with the need to give greater incentives to production and export. It will be very difficult, for example, given high rates of unemployment, for the GCCR to lower the high levels of protection that Costa Rica's inefficient import substitution oriented industrial sector enjoys. Yet, if exports are to expand, industrialists must find it as profitable to produce for export as for the internal market. Greater competition would also encourage the development of the greater efficiency and higher quality that are required to export successfully.

In summary, in democratic Costa Rica it is difficult to form and abide by consistent, coherent economic policies, especially policies which require widespread sacrifice. We must be willing to accept certain contradictions, slowness, and policymaking clumsiness—all inherent in the democratic process. We believe that the objective factors operating in the Costa Rican situation will make impossible an expanded public sector role in the economy and that the desire for economic stability and the basic pragmatism of Liberación Nacional will prevail over its tendency to try to find public sector solutions to all problems. It is not reasonable, however, to expect

Liberación Nacional to lovingly embrace "the magic of the marketplace." Still, Costa Rica offers an environment that is basically hospitable to private initiative and with careful placement and skillful conditioning of AID resources, as well as an ongoing policy dialogue, a potential exists to enhance that environment and to aid the transition of Costa Rica into the first world, that of free, developed nations.

4. Resources: During the period FY 1984 to 1989, the Mission estimates that a total of \$90 million in DA, \$100 million in PL 480 Title I, \$40 million in HIG, and \$450 million in Economic Support Funds will be required to achieve the goals described above. If other donor inputs are not as generous or as forthcoming as we expect or if the turmoil in Central America increases further, then greater amounts of ESF may well be required. In any event, because of Costa Rica's debt problems, the Mission will soon commission an analysis, for AID/W review, which we expect will lay the basis for a policy decision that to the greatest extent possible ESF should be provided on a grant basis and that terms for PL 480 should be reduced.

B. Private Sector Development

1. The Need for Revitalization of the Private Sector: The Mission's CBI Implementation Plan for Private Sector Development for Costa Rica, FY 1982-1984, along with the AID/W-financed Costa Rica Private Sector Study and other analyses have provided USAID with a basic

understanding of the condition of the Costa Rican private sector, the roots and consequences of its problems, the relationships between public policies and private productivity and future private sector prospects.

Briefly, the private sector in Costa Rica is faced with a limited domestic market, regional political instability and heavy protectionism within an ill-functioning Central American Common Market (CAOM). Having exhausted the potential benefits of import substitution policies, the country must seek to produce for and successfully enter extra-regional export markets if growth is to resume.

Lack of timely and adequate credit, both in foreign exchange and local currency, has constrained private sector activity in Costa Rica for a number of years. This, of course, is inextricably related to GOCR policies which: (1) support a government monopoly on most banking activity; (2) administer prices rather than allowing them to be determined by product, factor, and financial markets; (3) mobilize savings for public sector consumption, while keeping interest rates too low, thus starving the private sector of credit; and (4) accommodate exchange rate systems, export quotas, taxes and onerous bureaucratic controls in ways which lead to widespread inefficiency and inhibit investment in new export ventures.

In addition to the above, the experience with the protected CAOM has left Costa Rican industry seriously handicapped in

competitive markets. While professional managerial talent is an obvious asset in Costa Rica, specialized knowledge in areas of production techniques, export procedures, markets, and financing is noticeably lacking.

2. Objectives of the Mission's Private Sector

Strategy: Based on various assessments and analyses of the Costa Rican economy, it is our conclusion that current economic problems in Costa Rica have deep structural roots. The foregoing has led us to propose a strategy for this sector designed:

- o To strengthen the private banking sector;

- o To expand exports, investments and, concomitantly, employment opportunities; and

- o To create a more favorable environment for private sector activity.

It is clear that these objectives cannot be achieved without significant assistance to the public sector to better understand and improve its policy-making capability, as well as more direct aid for the private sector, selected institution building, and a significant increase in technology transfers and training.

3. Ongoing and Planned Efforts to Revitalize the

Private Sector: As discussed above in Part II.A.3, the Mission has developed and is pursuing a conscientious strategy of "policy dialogue" with the GOCR on behalf of the private sector. The principal objective of this dialogue has been to signal Mission concern over the need to develop a public sector environment which promotes rather than inhibits private enterprise. Thus, the Mission conditioned the Economic Support Funds (ESF) on compliance with the IMF Agreement which should, if adhered to, considerably improve the climate for private sector activity in Costa Rica. USAID has also supported BANEX and COFISA, which are private sector alternatives to the state-owned National Banking System. Additionally, the local currency generated by recent ESF cash transfers has been designated for lines of credit to private producers. In the ensuing dialogue, the Central Bank agreed to indirectly rediscount major portions of this credit through the private banks.

The Mission plans to continue the flow of ESF resources and the strengthening of the financial system at least thru FY 1989. New targets of opportunity --such as the recently created Cooperative Bank-- will be explored and supported where feasible.

Other major initiatives of the Mission in support of its private sector strategy through institutional development have been discussed in Part II.A. Briefly these include:

a. The conceptualization, creation and continued support for the Ministry for Exports and Investments and a One-Stop Investment and Export Promotion Center.

b. The creation of CINDE for the channeling of ESF/CBI local currency grant funds to PVO's and cooperatives working in Costa Rica to further the CBI objectives; providing private producers with an effective forum to address important issues facing the public and private sectors; and financing feasibility studies and technical assistance for new production ventures in Costa Rica.

c. The establishment, through BANEX, of a trading company serving Costa Rican exporters which will assist them to penetrate the U.S. market.

d. A program of administrative/technical support and credit through a \$600,000 OPG with the National Savings and Loan Cooperative Federation (FEDECREDITO) to strengthen its thirty-two member cooperatives.

Finally, the Mission plans to continue to support private sector institutions which carry out more effectively certain services that had been provided by the public sector. Examples include the new Family Planning Self Reliance project, the Private Sector Low-Cost Shelter program, and rural/agriculture programs.

Clearly, the creation, transfer, adaptation, dissemination and use of technologies that will raise the productivity of Costa Rican workers, enhance the competitiveness of products in the world market, reduce costs to consumers, make investments more profitable, and increase employment opportunities is needed. The Mission strategy is to concentrate technology transfers in areas which support private sector development: public sector management, production technology and export management.

As a start in the public sector management area, the Mission has provided consultants to assist the GOCR to understand current impediments to investment and export expansion and to develop a responsive remedial strategy. In the near future, it will also provide assistance to CODESA to divest state owned industries. During FY 1984 and FY 1985, the Mission expects to advance the progress made in these areas through the Policy Planning and Administrative Improvement (PPAI) project.

The Mission's strategy also contemplates encouraging production technology transfers to the private sector through such programs as the Chamber of Commerce "Twinning" effort, the International Executive Service Corps and Peace Corps. CINDE will serve as a funding mechanism for many of these efforts. Furthermore, by assisting in the development of the Ministry for Exports and Investment, the Mission expects to generate demand for new technology, some of which should be imported from the U.S. A fully operational BANEX trading company is

expected to help stimulate demand for new technologies in the production for non-traditional goods destined for the U.S. market. In addition, a training program for professors of selected university faculties will strengthen academic program areas which can contribute to the development of an indigenous research and technology development capability. Finally, USAID expects to increase training opportunities for local entrepreneurs and their employees.

C. Institutional Development

1. The Need for Institutional Development: In order to achieve its overall goals, the Mission needs to support selected private and public institutions in critical development sectors of Costa Rica. On the public sector side, institutions need to become more cost-effective in delivering basic services to the public. The Social Security System (CCSS), for example, which is responsible for the provision of health care services, operates inefficiently with an annual deficit of one billion colonos. Public entities also need to be able to formulate and implement strategies to increase revenues, decrease expenses as well as those which eliminate constraints to market and export-oriented development. Private enterprises need to become more competitive in extra-regional markets, and more effective in pushing for public macro-economic policies which improve the environment for private enterprise.

2. Ongoing and Planned Activities: The objectives of the Mission's program of institutional development activities are: to strengthen private sector production and financial institutions especially those facilitating exports and employment opportunities; to assist the Ministry of Finance increase revenues, and the CCSS to decrease expenditures and become a more effective conduit for provision of social services; and finally to bring together entities in both the public and private sectors to work toward increasing the well being and prosperity of the citizens of Costa Rica. Stated in another way, the Mission's strategy is to support institutions which directly or indirectly provide the best opportunities to generate more employment, housing and more effectively delivered social services.

a. Public Sector Management: During the planning period, technical assistance and training will be provided through the Policy Planning and Administrative Improvement project (PPAI) as follows:

(1) To CODESA, to develop a strategy and schedule for divestiture of state owned industries.

(2) To the Ministry of Finance to:

o Reorganize the Tax Collection Department which will result in increased revenues from sales and excise taxes, and from income and property taxes.

- o Improve the quality of the Tax Audit Unit which will also result in increased revenues.

- o Increase the productivity of the Office of Data Processing which should significantly reduce operating costs.

- o Upgrade Customs Office headquarters and reform the tariff structure nomenclature from a regional to a world wide system which will facilitate trade beyond the Central American Common Market.

- o Improve systems in the Valuation Unit of the customs service which is estimated to increase revenues by over 52 million colones per year.

(3) To the CCSS, to whom technical assistance and training funded under PPAI and a health sector loan will be made available, to:

- o Institute a budget system which will permit the analysis and planning required to control expenditures.

- o Establish a collections department to increase revenues from collection of payroll deductions as authorized by

Costa Rican law.

- o Install a hospital cost accounting system to increase efficiency of the hospital system.

- o Design and implement a supplies management system to improve planning, management and control of medicines and other supplies and equipment.

(4) Public Agriculture Institutions: In recent years USAID's institutional development assistance to the agriculture sector, a cornerstone of the Costa Rican economy employing 30% of the labor force and producing 60% of the foreign exchange, has been directed primarily to public sector management. Some fairly sophisticated institutions have emerged in the process. USAID strategy therefore is to shift emphasis to the private sector while remaining attentive to possibilities to improve management of grain storage facilities through PL 480 and ESF local currency generations, and to improve the Ministry of Agriculture's capability in agricultural policy analysis and formulation through the DA program.

b. Private Sector Institutions

(1) Agriculture: USAID's strategy is to channel increasing amounts of support from ESF and PL 480 local currency generations, as well as Development Assistance for consultants and training to beef up the following private sector agriculture institutions:

(a) The newly founded Cooperative Bank through:

o training of financial analysts to staff a Credit Department which will evaluate and facilitate loans to cooperatives;

o development of a lending facility of the local currency equivalent of \$5 million for member cooperatives which will generate badly needed funds for production inputs and marketing operations;

o training of staff for a Collections Control Unit, and Management Reporting Systems Unit which will enable the Bank to perform its functions more efficiently.

(b) Individual Cooperatives, through a USAID funded local currency grant to INCAE, will benefit from training programs in administration and financial management in order to improve their ability to make, manage and collect subloans and to assist the membership in the development of economically and financially viable production and marketing endeavors.

(2) Industry: During the CDSS period the Mission plans to assist CINDE, an indigenous private voluntary organization with a charter to stimulate private enterprise, with ESF dollar and local currency funds for technical assistance and training. The purpose is to create within CINDE a capability to assist with financing feasibility analyses of risk venture projects and market studies for the private sector. At the same time, CINDE will acquire the capacity to administer local currency grants to, inter alia, U.S. PVO's such as the International Executive Service Corps (IESC) which in turn will provide direct assistance to firms needing to resolve management, production or marketing problems. The development of CINDE as a business and industry oriented local private voluntary organization is the centerpiece of USAID's institution development strategy.

c. Public/Private Sector Coordination: As indicated in Part II, the Mission is convinced that a deep commitment exists within the GOCR to bring about stability and to create conditions which will result in more production and exports. USAID's strategy is to

capitalize on its ongoing projects in Housing and the PL 480 program to develop more rational linkages between the public and private sectors. The Mission will also support certain new initiatives such as the Office of the Minister Counselor for Exports and Investments (which was conceived by USAID and embraced by the GOCR), and assist develop a strategy for CODESA to assume a more appropriate role in the Economic Recovery program. Finally, the Mission expects to examine the possibility of supporting science and technology institutions with the potential to resolve production and marketing problems or to create new product or process opportunities for Costa Rican industry and agro-industry. Therefore during the planning period USAID assistance strategy is to:

(1) Increase the Costa Rican National Housing Institute's ability to finance private sector ventures in the construction of more affordable, more quickly produced, low-cost housing solutions through the Housing Guarantee Program and local currency generated from Economic Support Funds.

(2) Provide technical assistance and training to increase the Savings and Loan Association's ability to finance low cost shelter solutions by instituting more appropriate financing policies, and developing a capacity to prepare plans and specifications for lower cost multi units.

(3) Fund a Family Planning Self Reliance project designed to strengthen public sector support of population programs and to increase the private sector's capacity to participate in commercial sales of contraceptives.

(4) Attempt, through a new project in Science and Technology, to strengthen public and privately funded technological institutes, and to forge stronger linkages with the private sector in order to assist the latter to improve product quality, diversify, and take more advantage of opportunities especially in export markets.

(5) Assist CODESA to transfer state owned industries to the private sector and to rationalize the administration of its operations.

(6) Assist in the establishment of the Office of the Ministry of Exports and Investment and in the design and implementation of an Export and Investment Strategy through the provision of short term consultants under the PPAI project.

(7) Assist the Ministry of Exports and Investment to create a One Stop Export and Investment Promotion Center designed to streamline the complicated procedures required to invest and to export products from Costa Rica. USAID expects to fund this effort through a \$2-3 million local currency grant with supplementary technical assistance from the PPAI project.

D. Research and Technology Transfers

1. The Need for Increased Research and Technology

Transfer: The GOCR has already made extensive investments in health, education, communications and other types of basic infrastructure which, if utilized, will contribute to significant and short-term improvements in national productivity. Because of the rapidly deteriorating conditions in the Costa Rican economy, the GOCR perceives a need to protect the existing productive base and to explore opportunities in non-traditional products with export potential. In both cases there is a need to analyze technical constraints to more efficient production in the agricultural and industrial areas, and to better identify opportunities in the export markets. Therefore, the Mission's strategy is to promote the creation, transfer, adaptation, dissemination, and utilization of more appropriate technologies and methodologies largely through the institutional development mechanisms described in Part II-C. Additionally, however, USAID plans to support specific analytical efforts leading to the use of improved technologies.

2. Ongoing and Planned Efforts in Technology Transfer:

In the area of agricultural research and technology transfer, the Mission plans to undertake studies to identify the origin of agricultural production and productivity constraints for specific crops including basic grains. These studies will permit the Mission to assess whether the constraints arise from agronomic/climatological conditions,

lack of applicable research results, and/or deficiencies in the agricultural extension system and to direct future assistance efforts accordingly. The Mission also needs to carefully evaluate requested and planned activities which are directed at improving the research and technology transfer systems such as: the use of innovative communications techniques by the Ministry of Agriculture and Livestock's extension service under the Northern Zone Infrastructure Development Project; and the strengthening of private sector controlled agricultural producers associations to serve as technology transfer mechanisms to farmers in the case of non-traditional export crops. The success of these analytical efforts may point the way in the outyears for an expanded involvement in agricultural technology/extension activities.

In the area of industrial development, USAID's strategy is to utilize the CINDE mechanism (see Institutional Development Part II-C) to serve as a conduit to finance research and development. During the early part of the CDSS period, CINDE should obtain the staff and the capability to assess proposals from industry, especially in the areas of appropriate production technology, quality control, product diversification, and marketing analyses. CINDE in turn will receive and disburse funds from ESF local currency generations to finance feasibility studies where warranted, and provide technical assistance consultants through such mechanisms as the International Executive Service Corps. In time, the industrial sector should benefit also from the research and technology institutes in Costa Rica whose

technological research capabilities are to be upgraded under the proposed Science and Technology II project. Equally important from industry's standpoint is the availability of credit to import technology by way of licensing arrangements and purchases of machinery and equipment, which is being put at their disposal through USAID loan projects to BANEX, COFISA and the private banking sector from ESF local currency generations.

In the housing sector the most urgent need is for new technologies to lower construction costs. The Mission's strategy is to finance experiments with low-cost, locally available materials and new designs for self-help shelter construction. Technical assistance will be provided to design and promote new concepts and financial instruments to stimulate construction of and demand for low cost housing, as a part of the institution building process, described in Part II-C. If successful this project should have a significant impact on the resolution of the housing shortage problem, as well as upon the depressed condition of the construction industry and attendant unemployment.

E. Participant Training

1. The Need for Increased Participant Training: Prior to the economic crisis, the Mission's training activities were limited to a few project-specific opportunities. The structural nature of the

crisis has heightened the need for both projectized and non-projectized training assistance, with special attention being given to private sector training needs. In carrying out its expanded short-term and long-term training program, USAID/CR plans to finance --through loan and grant projects, LAC Training Initiative allocations and CBI resources -- academic, para professional, management and on-the-job training for both public and private sector-sponsored participants. The focus of the global USAID program will be areas important to Costa Rica's economic, social and technological development, including the private sector, institutional development, and technology transfer.

2. Objectives and Planned Efforts in Participant

Training: The Mission plans to use the bulk of the CBI resources earmarked for training for Costa Rica in ways which support and reinforce the economic adjustment taking place in industry. Non-projectized training will be funded through CINDE to this sector, of which illustrative examples --both short and long term -- include: (1) management skills training for private producers; (2) technical training for middle-level production supervisors; (3) seminars, with particular emphasis on agroindustry; (4) on-the-job vocational training in conjunction with private producers/manufacturers; and (5) export management training for personnel of the trading company created through the AID loan to BANEX, as well as for key employees of producers/manufacturers of non-traditional goods.

In addition to the training programs for the private sector described above, the Mission plans to fund training programs which are supportive of the productive private sectors through public sector institutions. One of these will be a training program, using ESF resources and funds from the proposed PPAI project, for GOCR personnel for the development and management of the new Export and Investment Ministry and its One-Stop Investment and Export Center. Another will continue to be a post-graduate training program, funded through the LAC Training Initiative project, for both public and private Costa Rican universities in order to create and/or strengthen an institutional expertise in priority development areas, including Economics, International Trade, Industrial Engineering, Business Administration, and Science and Technology.

By its very nature, the Mission's training program will constitute a valuable vehicle for transferring knowledge and technology which Costa Ricans can apply to the country's productive processes. Various loan-funded training programs, through the Natural Resources Conservation I and II loans and the Energy grants, for example, will help increase the country's capacity to manage effectively its natural resources and energy sources. Other project assistance (e.g. the ongoing Science and Technology loan, the future possible loan in agricultural technology extension) will support activities which link academic research findings with the producers needing that information. The strengthening of key university departments will also provide the

means for technology transfers in years to come. The Mission's short-term training program, consisting of observation visits, on-the-job training, specialized seminars and courses, will give priority to opportunities which afford both the public and private sectors with significant possibilities for technology transfers.

F. Food Aid

1. The Current Program: The P.L.480 Title I Program began in Costa Rica in 1982 with the signing of two Sales Agreements corresponding to Fiscal Years 1982 and 1983 for a total of \$37.2 million. In addition to supplementing local production, meeting unsatisfied demand, and improving the country's food reserves, food resources (wheat, feedgrains, edible oil and rice) under this Program have also contributed towards easing the country's balance of payments problems.

The Title I Agreements are being used effectively in bringing about policy changes through self-help measures directed at eliminating price subsidies and disincentives to production. Likewise, local currency generations re financing other self-help measures such as: a) capitalizing the Cooperative Bank to provide cooperatives with a viable and competitive alternative to the nationalized banks; b) providing needed capital to create crop specific producers associations; c) financing increases in the country's grain and pulse storage

capacity; and d) providing credit to farmers at market rates of interest.

Local currency generations are also being channeled to: a) provide counterpart to the USAID agricultural and rural development loans; b) IDB and World Bank loans for maintenance of farm-to-market roads and irrigation projects; and 3) a Food for Work program.

2. Planned Uses of PL 480: Future Title I Agreements will provide a continuing opportunity for dialogue with host country officials. Policy initiatives will continue to be designed into Title I Programs as self-help measures and activities which will seek to: (a) reduce constraints to the expansion of private agricultural production (market access, pricing policy as required, availability of credit, and increased and improved technical assistance, among others) and, (b) improve food production (specifically vegetable oils for domestic consumption, basic grains, and non-traditional products) for domestic and foreign markets.

In this effort, Title I local currency resources will continue to provide GOCR counterpart for on-going and future USAID and IDB Loans which support improvements in the agricultural sector. These resources will be focused on projects to: (a) increase production and productivity; (b) perform research and resolve marketing problems for non-traditional crops; (c) improve communication techniques; (d)

improve watershed management; and (e) achieve greater private sector involvement in the provision of crop-specific technical assistance to producers.

Attachment 1

USAID/CR Time-Phased Strategy and Program

Mission Strategic Objectives

Time Period/Activities	Economic Stabilization & Recovery	Strengthening the Financial System	Export and Investment Expansion	Policy and Administrative Reform	Improved Public/Private Coordination
<u>I. Ongoing, Authorized Pre-1987</u>					
<u>Commodity Systems Loan</u>	X		X		
<u>Urban Employment and Community Improvement Loan</u>					X
<u>Science and Technology Loan</u>					
<u>Natural Resources Conservation Loan</u>				X	
<u>Agrarian Settlement and Productivity Loan</u>			X		
<u>Integral Rural Development II OPG</u>					X
<u>Environmental Education II OPG</u>					
<u>Energy Policy Development Grant</u>				X	
<u>Private Sector Productivity (BANEX) Loan</u>	X	X	X		
<u>II. New Activities, FY 82-83</u>					
<u>Campesino Union Strengthening and Credit OPG</u>	X				

Attachment 1

USAID/CR Time-Phased Strategy and Program

Mission Strategic Objectives

Time Period/Activities	Economic Stabilization & Recovery	Strengthening the Financial System	Export and Investment Expansion	Policy and Administrative Reform	Improved Public/Private Coordination
Credit Union Strengthening OPG	X	X		X	
Economic Stabilization and Recovery I (FSF)	X	X	X	X	X
Private Sector Export Credit (COFISA) Loan	X	X	X		
Economic Stabilization and Recovery II (FSF/CBI)	X	X	X	X	X
ESF Reflow Financed Activity	X	X	X	X	X
P.L. 480 Title I	X			X	
P.L. 480 Reflow Financed Activity	X	X		X	X
Policy Planning and Administrative Improvement Grant	X		X	X	X
Northern Zone Infrastructure Development Loan	X		X		
Family Planning Self Reliance Grant				X	X
Private Sector Low-Cost Shelter HIG and Grant	X	X			X
Health Supplies Management Loan	X			X	

Attachment 1

USAI/CR Time-Phased Strategy and Program

Mission Strategic Objectives

Time Period/Activities	Economic Stabilization & Recovery	Strengthening the Financial System	Export and Investment Expansion	Policy and Administrative Reform	Improved Public/Private Coordination
III. Planned Activities, FY 84-89					
Cooperative Banking Services Grant	X	X		X	
Economic Stabilization and Recovery III-VI (ESF)	X	X	X	X	X
ESF Reflow Financed Activity	X	X	X	X	X
P.L. 480 Title I	X			X	
P.L. 480 Reflow Financed Activity	X	X	X	X	X
Housing Investment Guaranty	X	X			X
Science and Technology II Loan	X		X		X
Private Sector Productivity II Loan	X	X	X		
Private Sector Export Credit II Loan	X	X	X		
Agric. Technology Extension Loan			X	X	X
Industrial Export Expansion Loan	X	X	X	X	X
Agric. Export Expansion Loan	X	X	X	X	X

Attachment 2

Resource Requirements for Implementing the Mission's Strategy

(By Fiscal Year, \$000)

<u>Funding Category</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989a/</u>
Economic Support Fund	100,000	100,000 ^{a/}	100,000	100,000	25,000 ^{a/}	25,000
P.L. 480 Title I	25,000	25,000	25,000	25,000		
Housing Investment Guaranty		20,000		20,000		
Development Assistance	15,000	15,000	15,000	15,000	15,000	15,000
Total	140,000	160,000	140,000	160,000	40,000	40,000

a/ Not included in the FY 1984 CDSS.

Mission Staffing Priorities

There is no doubt that the sharp increases in U.S. Foreign Assistance and the extraordinarily staff-intensive efforts required to engage successfully in policy dialogue and create new private sector programs have taxed this Mission's staff almost to the point of diminishing returns. Two years ago, when the AID program amounted to \$13 million, the Mission was staffed by 18 USDH employees. This year's program will be in the \$145 million range plus a portfolio of approximately \$65 million and with only 14 USDH on board. As a result, the typical officer and most of the Mission local professionals average 55-60 hours per week. Clearly the workload, including the burden brought about by what should but is not being done, strain the staff beyond reasonable limits. The stress is constant. Unless something is done soon to remedy the situation, it seems inevitable that the quality of USAID's management, programming and implementation efforts will suffer, morale will falter and individuals on the staff will begin to look for opportunities to bail out.

The Mission's needs in order of priority are:

1. Deputy Controller

2. Assistant Trade and Development Officer

3. Agricultural Economist/Project Manager
4. Program Economist/Analyst

A Deputy Controller is the highest priority. Disbursements handled by the Controller's Office have increased from \$3 million in FY 1981 to \$41 million in FY 1982 and are expected to exceed \$150 million in FY 1983. Even though these numbers include ESF and PL 480, DA disbursements have tripled from \$3 million in FY 1981 to \$9 million in FY 1982, the number of vouchers processed increased by 50%, the number of emergency payments almost doubled, and the Mission's operating budget, which the Controller manages, increased by 44%. Because of the increase in the Controller's work load, the reconciliation of GOCR loan repayments with AID/W records the implementation of AID project accounting systems; and the finalization of physical inventory/certification of non expendable property have been delayed.

Other important studies have also been delayed and interrupted; among them, an analysis of project advances vs. expenditures and the establishment of individual project disbursement procedures and advances. The Controller's Office input into the financial analysis aspects of new project development is, because of time constraints, extremely limited. A USDH Deputy Controller is a must.

The Mission's new Private Sector Office has the responsibility for managing the Mission's loans (\$20 million) to BANEX and COFISA (high risk projects requiring close monitoring), CINDE's policy and private sector promotion activities, ESF-generated local currency credit lines to the private sector (\$30 million), and the implementation of the all-important GOCR investment and export promotion strategy and action program. The activities to be managed by this new Office are central to the Mission's program and will require at least one additional USDH to assist the new Office Chief.

The Mission's Rural Development Office (RDO) has been operating in an essential fire-fighting mode. Because of staff limitations RDO was forced to postpone one project planned for FY 1983 to FY 1984; field trips, an integral part of effective project management, have been almost totally curtailed, and contact with local agricultural sector counterparts have become much less frequent. Most importantly, the RDO staff has found it difficult to devote the time to properly analyze agricultural data and stay on top of the changing agricultural sector situation. The foregoing has made significant policy discussions in this important sector difficult and has resulted in less than optimal formulation of PL 480 self-help measures and local currency programming. The addition of an Agricultural Economist to the RDO staff would greatly enhance the Mission's policy position and the effectiveness of the Mission ag. sector and PL 480 programs.

Costa Rica's principal problems are macro-economic. In order for the Mission to do its job well all major aspects of the fast-breaking Costa Rican macro-economic situation must be carefully tracked, analyzed and evaluated. The Mission must closely monitor and understand the impacts of such matters as exchange policy and management; monetary, trade, and fiscal policy; the impact of the CACM; and IMF and IBRD programs. Although Embassy economic reporting has been very good, more in-depth analyses have had to be performed by ROCAP and AID/W economists. The quality of this economic analysis has been good, but it has not been sufficiently frequent nor continuous enough to stay fully on top of and thoroughly understand an extremely complex and quickly changing economic environment. The Costa Rican Mission needs a Program Economist, or alternatively, fully one-half time of a ROCAP economist stationed in Costa Rica.