PN-ABH-151
ISN 70015

CURRENT ECONOMIC CONDITIONS AND PROSPECTS OF THE PRIVATE SECTOR IN COSTA RICA

ProDesarrollo
Centro para la Promoción de la Ciencia y el Desarrollo Socioeconómico
Center for the Promotion of Sciences and Socioeconomic Development
Apartado 6193, San José 1000, Costa Rica
Cables: PRODESARROLLO
Tel. 24-10-33

21 de junio, 1982

Sr. Daniel Chaij
Director de la Misión USAID/Costa Rica
Presente

Estimado Sr. Chaij:

Me permito poner en sus manos el Estudio denominado "Current Economic Conditions and Prospects of the Private Sector in Costa Rica" que la USAID/Costa Rica tuvo a bien encomendarle a PRODESARROLLO mediante Contrato N°515-000-C-00-2006-00.

El documento contiene un análisis por sectores económicos de la situación de la economía costarricense, y en particular del sector privado, así como también una visión acerca de las perspectivas para su desarrollo futuro. También incluye un detalle del marco institucional y jurídico donde se examinan las restricciones e incentivos dentro de los cuales lleva a cabo sus actividades la empresa privada.

En la realización del estudio se contó con la valiosa participación de Rafael Celis U.,Juan Manuel Villasuso, Rafael Angel Trejos, Rosario Domingo, Marvin Taylor, Enrique Vásquez, Julio Kierszenson, Adrián Vargas y Alejandro Desarraga, quienes colaboraron en la elaboración de las diversas secciones del trabajo.

No omito manifestarle que lo reducido del tiempo disponible constituyó una limitante calificada que en ocasiones imposibilitó mayor profundización en algunos temas de interés los cuales ameritarían en el futuro un tratamiento más pormenorizado y exhaustivo.

Deseamos, finalmente, expresarles nuestro agradecimiento por la confianza depositada en PRODESARROLLO para la realización de un trabajo como el presente, el cual esperamos sea de utilidad y provecho para la definición de una estrategia de acción para Costa Rica dentro de la Iniciativa de la Cuenca del Caribe.

Con muestras de consideración y estima le saluda

Atentamente,

Mario Vedova

Lic. Mario A. Vedova, M.P.A.
Presidente

INDEX

1. INTRODUCTION 1.1

1.1. OBJECTIVE OF THE STUDY 1.1

1.2. ASPECTS ANALYZED 1.1

1.3. LIMITATIONS OF THE STUDY 1.2

1.4. GENERAL ASPECTOS OF THE COSTA RICAN ECONOMY 1.3

1.5. SOME RESULTS TO BE STRESSED 1.11

2. ANALYSIS AND EVALUATION OF THE AGRICULTURAL SECTOR 2.1

2.1. RECENT EVOLUTION AND PRESENT STATUS 2.1

2.1.1. Production Behavior 2.1

2.1.1.1. Agricultutal and Livestock Production 2.1

2.1.1.2. Agro-industrial Production 2.9

2.1.2. Financing 2.13

2.1.2.1. The National Banking System and the agricultural Livestock sector 2.13

2.1.2.2. Evolution of Financing for the sector 2.18

2.1.2.3. Evolution of credit by products 2.28

2.1.2.4. Loans and rates of interest 2.28

2.1.2.5. Financing problems 2.35

2.1.3. External Sector 2.35

2.1.3.1. Evolution of exports 2.35

2.1.3.2. Export markets 2.40

2.1.3.3. Imports for the sector 2.42

2.1.3.4. Food trade balance 2.46

2.1.4. Demand by agricultural/Livestock products 2.46

2.1.5. Prices 2.51

2.1.5.1. International Prices 2.51

2.1.5.2. Domestic prices 2.53

2.1.5.3. Price policy 2.57

2.1.5.4. Prices of imported inputs 2.58

2.1.6. Marketing 2.60

2.1.7. Employment and wages 2.63

2.1.7.1. Employment 2.63
2.1.7.2. Wages 2.67
2.1.8. Investment in the sector 2.70
2.1.8.1. Evolution of inestment 2.70
2.1.8.2. Public investment projects 2.77
2.1.9. Research and Technology 2.79
2.1.10. Physical infrastructure 2.81

2.2. PROSPECTS FOR THE SECTOR 2.85

2.2.1. Production 2.85
2.2.2. Financing 2.89
2.2.3. External Sector 2.90
2.2.4. Demand for goods of the sector 2.91
2.2.5. Prices 2.92
2.2.6. Employment 2.93
2.2.7. Investment 2.93

2.3. FUNDAMENTAL PROBLEMS OF THE SECTOR 2.96

2.4. INSTITUTIONAL FRAMEWORK 2.108

2.4.1. Institutions of the Central Government 2.108
2.4.1.1. Ministry of Agriculture and Livestock 2.109
2.4.1.2. Executive Secretariat for Agricultural/Livestock Sectorial Planning (SEPSA) 2.111
2.4.2. Autonomous and semi-autonomous organizations 2.111
2.4.2.1. National Banking System 2.112
2.4.2.2. National Production Council 2.112
2.4.2.3. National Institute for Cooperative Promotion 2.114
2.4.2.4. National Insurance Institute 2.114
2.4.2.5. Land and Settlement Institute (ITCO) 2.115
2.4.2.6. National Training Institute 2.117
2.4.2.7. Port Administration Board and Economic Development of the Atlantic Vertant (JAPDEVA) 2.117
2.4.2.8. University of Costa Rica (UCR) 2.118
2.4.2.9. National University (UNA) 2.118
2.4.2.10. Center for the Promotion of Exports and Investment (CEMPRO) 2.119
2.4.3. Joint Public Enterprises 2.119
2.4.3.1. Costa Rican Development Corporation 2.119
2.4.4. Private Enterprises 2.121
2.4.5. Evaluation of the institutional framework 2.122

-4-

3. INDUSTRIAL SECTOR: EVOLUTION AND PROSPECTS 3.1

3.1. BRIEF DESCRIPTION OF THE INDUSTRIAL SECTOR 3.1

3.1.1. The Country's Industrialization: A General Review 3.1

3.1.2. Industrial Sector Economic Importance 3.3

3.1.3. Internal Structure of the Industrial Sector 3.5

3.2. RECENT EVOLUTION AND PRESENT SITUATION 3.10

3.2.1. Conditions of Industrial Production 3.10

3.2.1.1. Production Evolution 1977-1981 3.10

3.2.1.2. Utilization of Installed Capacity 3.18

3.2.1.3. Imported Component of Production Cost 3.22

3.2.1.4. Brief Comments on the Industrial Sector's Efficiency 3.25

3.2.2. Market Conditions for Industrial Products 3.26

3.2.2.1. Structure of Destination of Industrial Sales 3.26

3.2.2.2. Behaviour of the Demand for Industrial Productos in the Second Semester of 1981 3.28

3.2.2.3. Evolution of the Prices of Industrial Products in 1981 3.28

3.2.3. Employment and Wages in the Industrial Sector 3.31

3.2.3.1. Employment 3.31

3.2.3.2. Wages 3.31

3.2.4. Investments in the Industrial Sector 3.35

3.2.4.1. Investment's Evolution 3.35

3.2.4.2. Some Characteristics of Foreign Investment in the Industrial Sector 3.42

3.2.5. Credit and Financial Situation in the Industrial Sector 3.44

3.2.5.1. Credit 3.44

3.2.5.2. Main Financing Sources 3.48

5

3.2.5.3. Financial Situation 3.48

3.2.5.4. Investment and Financing by the National Banking System for Industrial Investment 3.53

3.2.5.5. Production Costs and Financing of Operation Costs by the National Banking System 3.55

3.2.6. Industry and The External Sector 3.57

3.2.6.1. Industrial Sector's Imports in the 1978-1981 Period 3.57

3.2.6.2. Industrial Exports: 1976-1981 3.62

3.2.6.3. Trade Balance of the Industrial Sector 3.72

3.2.6.4. Diverse Topics Related to the Increase of Industrial Exports 3.74

3.3 PROSPECTS OF THE INDUSTRIAL SECTOR 3.83

3.3.1. Production 3.83

3.3.2. Employment 3.85

3.3.3. Investment 3.85

3.4. REACTIVATING THE INDUSTRIAL SECTOR 3.88

3.4.1. A Starting Point 3.88

3.4.2. The Short-Term Dimension 3.88

3.4.2.1. Main Problems 3.88

3.4.2.2. Action Areas 3.90

3.4.2.3. Key Divisions and Groupings for Reactivating the Industrial Sector in the Short-Term 3.92

3.4.3. The Structural Dimension 3.97

3.4.3.1. Main Problems 3.97

3.4.3.2. Action Areas 3.98

3.5. THE INDUSTRIAL SECTOR'S INSTITUTIONAL SUPPORT FRAMEWORK 3.100

3.5.1. Public Institutions 3.100

3.5.2. Private Institutions 3.100

3.5.3. Coordination between Public Authorities and Private Representatives 3.102

3.5.4. Purposes of the Main Public and Private Institutions for the Granting of Support to the Industrial Sector 3.102

4. COMMERCE, SERVICE AND CONSTRUCTION SECTOR 4.1

4.1. GENERAL CHARACTERISTICS 4.1

4.2. RECENT EVOLUTION AND PRESENT STATUS 4.9

4.2.1. Evolution of the Sector 4.9

4.2.2. Commerce 4.11

4.2.3. Finance Services 4.22

4.2.4. Tourism 4.37

4.2.5. Transportation 4.65

4.3. PROBLEMS FACED BY THE SECTOR 4.68

4.4. INSTITUTIONAL FRAMEWORK 4.70

4.4.1. Commerce 4.70

4.4.2. Services 4.76

4.4.2.A Finance Services 4.76

4.4.2.B Transportation 4.87

4.4.2.C Tourism 4.89

4.4.3. Evaluation of the institutional Framewprk 4.91

4.5. CONSTRUCTION SECTOR 4.96

5. LEGAL ASPECTS OF INCENTIVES AND CONSTRAINTS IN PRIVATE ECONOMIC ACTIVITY 5.1

5.1. PRODUCTION AND EXPORTATION LEGISLATION BY ECONOMIC SECTORS 5.1.

5.2 MONETARY LEGISLATION 5.40

5.3. TAX SYSTEM STRUCTURE 5.47

5.4. LAW OF CONSUMERS PROTECTION 5.64

5.5. MAIN ASPECTS OF LABOR AND SOCIAL LEGISLATION 5.67

5.6. RELEVANT LEGAL ASPECTS TO CONSIDER IN THE CURRENT CRISIS OF ENTERPRISES 5.73

6. BIBLIOGRAPHY 6.1

INDEX OF TABLES

Table 1.1	Costa Rica: Some Economic Indicators 1960-1980	1.4
Table 1.2	Costa Rica: Indicators on the Evolution of the Share of the Public Sector in the Economic Activity 1960-1980	1.7
Table 1.3	Costa Rica: Recent Evolution of the Main Economic Indicators 1976-1980	1.9
Table 2.1	Overall Gross National Product/Agricultural and Livestock Gross National Product	2.2
Table 2.2	Share of the Agricultural/Livestock Sector in the GNP	2.3
Table 2.3	Share of the Various Agricultural/Livestock Products in the Gross Production Value	2.4
Table 2.4	Gross Value of Agricultural/Livestock Production at 1966 Prices (annual Growth Rates)	2.5
Table 2.5	Physical Volumes of Agricultural/Livestock Production	2.7
Table 2.6	Yield of Principal Agricultural Products	2.8
Table 2.7	Evolution of Costa Rican Agro-Industrial Production	2.12
Table 2.8	Evolution of Agro-industrial Production, including Coffee, Beef and Sugar	2.14
Table 2.9	Evolution of Credit for the Agricultural/Livestock	2.19
Table 2.10	Public Financing of the Agricultural/Livestock Sector	2.20
Table 2.11	Ratio of Gross Agricultural/Livestock Production Value to Credit for the Agricultural/Livestock sector	2.23
Table 2.12	Credit and Costs in Rice Production	2.26
Table 2.13	Ratio of Cost to Credit Scheduled for the Production of Staple Cereals for the 1982-1983 Crop	2.27
Table 2.14	Percentage Breakdown of Agricultural/Livestock Credit by Products	2.29
Table 2.15	Annual Variation Rates of Subsidized Loans per hectare	2.31
Table 2.16	Active and Passive interest rates of the government commercial banks	2.32
Table 2.17	Variation Rate for Agricultural/Livestock and Agro-industrial Exports	2.37
Table 2.18	Exports by the Agricultural/Livestock and Agro-industrial sector	2.38
Table 2.19	CIF Imports for Agriculture by Economic Categories	2.43
Table 2.20	Imports of Agricultural/Livestock and Agro-industrial Products	2.45

8

Table 2.21	Food Imports	2.48
Table 2.22	Apparent Per Capita Consumption of some Agricultural/ Livestock Products	2.49
Table 2.23	Variation in Apparent Food Consumption Excluding Coffee, Bananas and Cacao	2.50
Table 2.24	Evolution of International Prices of Export Products	2.52
Table 2.25	Average Prices paid to the Agricultural /Livestock Farmer	2.54
Table 2.26	Variation in Average Prices paid to the Farmer by Agricultural Item	2.55
Table 2.27	Employment in the Agricultural/Livestock Sector	2.65
Table 2.28	Employment Growth Rate in the Agricultural/Livestock Sector	2.66
Table 2.29	Nominal Average Wages of Wages-Earning, Employed Population by Kind of Activity	2.68
Table 2.30	Real Average Wages and Annual Growth Rate of Wage-Earning, Employed Population by Kind of Activity	2.69
Table 2.31	Total and Agricultural/Livestock Gross Investment	2.71
Table 2.32	Gross Investment of the Agricultural/Livestock Sector	2.72
Table 2.33	Gross Investment by Origin	2.74
Table 2.34	Gross Agricultural/Livestock Investment by Origin	2.75
Table 2.35	Gross Investment adn Effective Investments in the Agricultural/Livestock Sector	2.76
Table 2.36	Public Investment Projects by Programs 1976-1980	2.78
Table 2.37	Public and Private Storage Capacity	2.86
Table 2.38	Production Goals and Growth Rates for the 1982-1983 Agricultural Period (1979 Prices)	2.95
Table 2.39	Summanry of Sectorial Objectives and Policies, and Institutional responsibilities by program 1982	2.97
Table 2.40	Credit Program for the Agricultural/Livestock Sector 1982	2.102
Table 2.41	Inventory of Agro-industrial Projects (October 1981)	2.104

9

Table 3.1.	Indicators of the Industrial Sector's Economic Importance	3.4
Table 3.2	Structure of the Industrial Value-Added	3.6
Table 3.3	Value-Added Structure of Industrial Production	3.7
Table 3.4	Variation of Industry's Production Volume	3.11
Table 3.5	Evolution of Industry Including Beef, Coffee and Sugar	3.12
Table 3.6	Variation fo Industry's Production Volume (3 digt)	3.14
Table 3.7	Utilization of Installed Capacity by Industrial Division in 1981	3.20
Table 3.8	Imported Component of the Industrial Sector's Production Cost in 1981 by Division	3.23
Table 3.9	Imported Component of the Industril Sector's Production Cost 1976-1981	3.24
Table 3.10	Enterprises that Increased their Productivity by Reducing Personnel in 1981	3.25
Table 3.11	Destination of Industrial Sales 1980-1981	3.27
Table 3.12	Evolution of Demand Directed Towards the Industrial Sector During the Second Semester of 1981	3.29
Table 3.13	Semestral Evolution of Prices of the Manufactured Products	3.30
Table 3.14	Country's and Industrial Sector's Working and Wage-earning Population	3.32
Table 3.15	Industrial Sector's Total Wage-Earning and Working Population (Growth Rates)	3.33
Table 3.16	Industrial Sector's Total Gross Investment	3.36
Table 3.17	Industrial Sector's Gross and Net Investments (Nominal Terms)	3.37
Table 3.18	Industrial Sector's Gross and Net Investments (Real Terms)	3.38
Table 3.19	Industrial Sector's Gross Investment According to Origin of Capital	3.39
Table 3.20	Country's and Industrial Sector's Total Net Investment (Nominal Terms)	3.40

Table 3.21	Country's and Industrial Sector's Total Net Investment (Real Terms)	3.41
Table 3.22	Opinions on Costa Rica's Infraestructure for the Development of Industrial Activities	3.43
Table 3.23	Effective Loans by the National Banking System (Nominal Terms)	3.45
Table 3.24	Effective Loans of the National Banking System (Real Terms)	3.46
Table 3.25	Effective Loans of the National Banking System in the Industrial Sector	3.47
Table 3.26	Liquidity Ratio of The Companies taken into Account in the Export Promotion Sample	3.50
Table 3.27	Indebtness Ratio of Companies taken into Account in the Export Promotion Sample	3.51
Table 3.28	Fixed Assets / Total Assets Ratio of Companies taken into Account in the Export Promotion Sample	3.52
Table 3.29	Industrial Gross Investment and Financing of the National Banking System	3.54
Table 3.30	Costs of Industrial Production and Financing by the National Banking System	3.56
Table 3.31	Costa Rica's CIF Imports According to Economic Sectors and Economic Categories	3.58
Table 3.32	Structure of Costa Rica's CIF Imports According to Economic Sectors and Economic Categories	3.59
Table 3.33	Industrial CIF Imports According to Economic Categories and Origin of the Goods	3.60
Table 3.34	Structure of CIF Imports of the Industrial Sector According to Economic Categories and Origin of the Goods (Percentages)	3.61
Table 3.35	Costa Rica's FOB Exports According to Economic Sector and Destination of Goods	3.63/3.64
Table 3.36	Costa Rican Industrial FOB Exports According to Industrial Division and Destination of Goods	3.65/3.66
Table 3.37	Costa Rica's Industrial FOB Exports by Industrial Division and Destination of Goods (Relative Figures)	3.68/3.69

Table 3.38	Costa Rica's Industrial FOB Exports by Industrial Division and destination of Goods (Relative figures)	3.70/3.71
Table 3.39	Trade Balance of Costa Rica's Industrial Sector	3.73
Table 3.40	Exporting Companies in the Export Promotion Survey Sample	3.76
Table 3.41	Problems limiting Exports	3.76
Table 3.42	Information on Foreign Market	3.77
Table 3.43	Financing of Exports	3.77
Table 3.44	Credit Requirement for Export	3.78
Table 3.45	Destination of the Required Credit	3.78
Table 3.46	Utilization of Fiscal Incentives to Export	3.80
Table 3.47	Reasons for not using Fiscal Inventives to Export	3.80
Table 3.48	Opinion on CAT and CIEX as Fiscal Incentives to Export	3.81
Table 3.49	Transportation Problems in Exports	3.81
Table 3.50	Exporters Transportation Problems	3.82
Table 3.51	Opinion on Exporting Risk	3.82
Table 3.52	Opinion on Association with other companies for Exporting Purposes	3.82
Table 3.53	Evolution of the Costa Rican Manufacturing Industry: 1981-1982	3.84
Table 3.54	Costa Rican Manufacturing Industry: Employment for the first semester of 1982	3.86
Table 3.55	Investment Prospectos in Fixed Assets in the Manufacturing Industry in 1981-1982	3.87
Table 3.56	Structural Characteristics of Key Industrial Divisions for Reactivating the Industrial Sector in a Short-Term	3.93
Table 3.57	Structural Characteristics of Key Industrial Groups for Reactivating the Industrial Sector in the Short Term.	3.94
Table 3.58	Costa Rica: Main Public and Private Institutions Granting Support to the Industrial Sector	3.101

Table 4.1.	Gross National Product Commerce and Service Sector	4.4
Table 4.2	Working Population by Activity Sector	4.6
Table 4.3	Total Monthly Wages paid in the Country by Activity Sector	4.7
Table 4.4	Gross Capital Formation, by activity Sector	4.8
Table 4.5	Gross National Product of Commerce and Service Sector	4.10
Table 4.6	Working Population in the Commerce and Service Sector in the Month of July of each year	4.12
Table 4.7	Gross Formation of Capital in the Commercial Activity	4.14
Table 4.8	National Banking System -New loans made in Commercial Activities-	4.17
Table 4.9	National Banking System -New loans made in Commercial Activity (real terms)	4.19
Table 4.10	Marketing margin of some products	4.20
Table 4.11	Marketing Margin of some Products (Growth Rate)	4.21
Table 4.12	National Banking System New Effective Loans	4.25
Table 4.13	Finance System Acquisition of Resources	4.28
Table 4.14	Operations of National Stock Exchange	4.31
Table 4.15	Finance Services-Gross Formation of Capital (real terms)	4.34
Table 4.16	Origin of Resources	4.35
Table 4.17	Private Finance Companies-Origin of Resources	4.36
Table 4.18	Costa Rica: Historical Evolution of the Number of Arrivals of International Tourists 1979-1981	4.40
Table 4.19	Costa Rica: Inflow of Foreign Exchange from International Tourism 1970-1980	4.41
Table 4.20	Number of Arrivals of Inernational Tourists in Costa Rica by Zones and Countries (1976-1981)	4.45
Table 4.21	Number of Arrivals of International Tourists in Costa Rica	4.46
Table 4.22	Gross National Product for Construction	4.102
Table 4.23	Employment and Wage Earners in Construction (1976-1982)	4.103
Table 4.24	Employment and Wage Earners in the Sector (Growth Rate)	4.105

Table 4.25 National Bankin System - New Effective Loans ir Housing 4.106

INDEX OF GRAPHS

Graph 3.1 Variation Rates of theGross National Product with Respect to the Previous Year (1950-1980) 3.2

Graph 3.2 Structure of the Industrial Value-Added (by divisions) 3.8

14

1 - INTRODUCTION

1.1 OBJECTIVE OF THE STUDY

The "Study on the Economic Conditions and Prospects of the Private Sector in Costa Rica" is a survey and analysis of local conditions which bear on the feasibility of achieving Caribbean Basin Iniciative objectives. The main purpose of the study is to provide a clearer understanding of the current situation, and to identify the constraints to expanded levels of private investment and output.

1.2 ASPECTS ANALYZED

The analysis submitted is broken down into economic sectors and includes the following: agricultural/livestock, industrial, commerce, transportation, tourism and construction sectors. For each of them, some essential elements of a structural nature are presented (although a deep analysis is not made thereof in this sense); the recent evolution and the present situation (which were studied in as detailed and broad a manner as time and information allowed); the institutional framework, both public and private, which serve to support or restrict private enterprise; and the principal problems and obstacles facing the development of the activity, both at the present time and over a short and medium term.

The final chapter of the study includes legal and juridical matters, and examines existing legislation in regard to the incentives and the limitations that it could represent for the reactivation and the sustained development of private enterprise in Costa

Rica. The chapter also includes the evaluation of the principal juridical projects that at present are being discussed by the Legislative Assembly, or which may be decreed by the Executive Power.

1.3 LIMITATIONS OF THE STUDY

Like any study that aims to give a complete overview of a given reality, this work is not exhaustive and does not examine each and every one of the elements that make up such reality. There are many interesting aspects that have not been included. However, we believe that the most important variables, that the most relevant considerations and that the most transcendent conclusions and recommendations have been included in the document.

In many cases, the analysis is not as deep as was to be desired; in others, the information that justifies the affirmation is not as updated or complete as required by academic rigor; in still others, there is nothing more than rumors or statements that do not permit going beyond the formulation of a hypothesis or offering some speculative comments.

These limitations, many of them due to the excessive brevity of the time available (6 weeks), are not, in our opinion, factors that detract validity from the study. On the contrary, we feel that if an effort had been made to include only those elements that can be proven beyond a doubt or analyzed rigorously, the work would be extremely incomplete and it would not capture realities which, although they may be qualitative, can be of great help for the definition of policies.

We do believe that in the future, it would be advisable to explore more thoroughly some of those elements that have been left without sufficient demonstration or which are now presented as a hypothesis to be proven.

1.4 GENERAL ASPECTS OF THE COSTA RICAN ECONOMY

Costa Rica is, by traditional standards, in the group of countries having medium income and a mixed economy. With a population of 2.2 million living in 52 thousand square kilometers, its gross national per capita product was close to US$ 1,000 in 1980 (at 1970 prices). Due to the recent devaluation and to the decrease in production that occurred in 1981, this figure has dropped significantly in the recent past.

Costa Rica's productive structure is characterized by a predominance of terciary activities, which contribute more than 55% of the production (Table 1-1.)The predominance of the terciary sector originates in the great importance that commercial activities, particularly those connected with imported items, have in the country, as well as the weight of the Government in the national economy. The primary sector, for its part, is ruled by the principal export products (coffee, bananas and cattle) and, while it showed strong dynamism during the past few decades, it has been losing comparative importance in favor of the secondary sector. The latter has found a suitable field for development under the Central American Common Market and the extreme protection afforded by it.

During the past few decades, the country was characterized by showing a great dynamism in economic matters, both in the increase

17

TABLE 1.1 COSTA RICA: SOME ECONOMIC INDICATORS

1960-1980

INDICATORS	1960	1980*
1. Gross National Product at Market Prices		
a. Value (millions of 1970 dollars)	667	2.204
b. Growth (mean annual rates)[1]	6.1	5.6
2. Gross National Product per inhabitant		
a. Value (1970 dollars)	540	996
b. Growth (mean annual rates)[1]	3.2	3.0
3. Share of sectors in the generation of the product		
a. Primary sector (percentage)	25.9	18.3
b. Secondary sector (percentage)	16.3	25.0
c. Terciary sector (percentage)	57.8	56.7
4. Opening or dependency with the rest of the world		
a. Exports in proportion to overall demand (percentages)	17.0	19.1
b. Imports in proportion to overall supply (percentages)	20.7	26.4
c. External savings in proportion to overall savings (percentages)	26.1	56.5
5. Other economic variables		
a. Prices to consumer (mean annual rates)[1]	2.3	8.7
b. Open unemployment (percentage of labor force)[2]	6.9	5.9

*/ Preliminary figures

1/ Refers to 1960-1970 and 1970-1980 periods.

2/ Refers to years 1963 and 1980.

SOURCE: Costa Rican Central Bank: "Figures National Accounts" and Economic Committee for Latin America: "Statistical Summary for Latin America 1960-1980".

in production and in the increase in the real per capita incon . The high growth in production made it possible to successfully meet the increasing demand for jobs, so unemployment did not get to constitute an acute problem. This is particularly true to the extent that the Government Sector absorbed a substantial part of the new labor, which could not be employed by the other economic sectors.

Price stability is another of the peculiarities of the country's economic development in the past. Between 1960 and 1980, prices to the consumer grew, on an average, at a rate of 6.9% a year, this variation being only 2.3% between 1960 and 1970. The acceleration in the growth rate in prices during the 1970's is explained by the great sensitivity of the economy to world events, mostly connected with oil prices.

The great sensibility of the national economy to changes occurring in the economies of the rest of the world is precisely another of the features of the Costa Rican economic system. This foreign dependence is seen both from the viewpoint of demand and from the viewpoint of supply. From the viewpoint of demand, not only is the amount of export an important part of the overall demand (21.5% on an average during the past decade) but, in addition, exports are only slightly diversified. Three agricultural products (coffee, bananas and beef) contribute somewhat more than 60% of the country's exports. From the viewpoint of supply, the picture is similar. Imports contribute, on an average, 27.5% of the goods and services available in the country per year, and its make-up tends to move toward inputs and capital goods required, mainly for industrial activities.

Another consequence of the opening of the Costa Rican economy to other countries is the importance of external savings (deficit of the country on current account) in the financing of the gross formation of capital. In the previous decade, foreign savings financed, on an average, the equivalent of 44.3% of the gross formation of capital, this contribution being 56.5% in 1980.

Lastly, one feature of the Costa Rican economy which it is important to stress, is the size and influence of the public sector. Several indicators give an idea of the relative importance of this share, and its evolution (Table 2).

In terms of production, the value added by the public sector represented 25.0% of the overall value added in 1980. The contribution of the gross formation of fixed capital is significant. In 1979 it generated around one third of the overall gross formation of fixed capital. In terms of employment, the public sector absorbs 19.6% of the overall working population, which percentage goes up to 26.1% if it is limited to the group of wage-earners. Thus, the Public Sector is the next highest employer in the economy after the agricultural sector.

The Present Status

As mentioned before, the Costa Rican economy is very open to international trade; and exports rest strongly on a few products. These characteristics have transformed the country's development process into a process that is accompanied by inevitable fluctuations. The fluctuations originate largely (though not exclusively) in cyclical variations in the terms of trade. When the terms of

TABLE 1.2 COSTA RICA: INDICATORS ON THE EVOLUTION OF THE SHARE OF THE PUBLIC SECTOR IN THE ECONOMIC ACTIVITY 1960-1980

-relative figures-

SHARE OF THE PUBLIC SECTOR IN:	1960	1970	1979	1980*
1. The Gross National Product	14.9	18.2	24.6	25.0
2. The Gross National Expense	13.6	17.2	27.0	n.a.
3. The Gross Formation of Fixed Capital	20.7	22.8	34.0	n.a.
4. The Financing of the Gross Formation of Capital	18.8	18.1	1.3	n.a.
5. Overall Employment[1]	12.0	15.5	18.5	19.6
6. Wage-Earning Employment[1]	17.9	20.5	25.4	26.1
7. Tax Load[2]	13.5	16.8	20.7	19.8

*/ Preliminary figures.

n.a. Figures not available

1/ The first two figures refer to 1963 and 1973, respectively.

2/ Ratio between tax revenues plus contributions to Social Security and the gross national product.

SOURCE: Costa Rica Central Bank, Department of Research and Statistics, National Accounts Section: "Figures for Costa Rican National Accounts. Series 1957-1977. 1978 Estimate" and "Costa Rican National Accounts 1971-1980", 1979 and 1980.

Ministry of Labor and Social Security and Ministry of Economic, Industry and Commerce. "National Survey of Homes, Employment and Unemployment. Corrected Data Series. 1976-1980", 1981

trade deteriorate, the trade deficit begins to widen and the reserves start to decrease. In the face of this situation, the governments traditionally have responded with expansive programs of public spending in order to offset the drop in real income. This leads to greater external disbalance, until it becomes necessary to take corrective measures of internal adjustment (devaluations). An improvement in the terms of trade, accompanied by an adequate supply of goods by national producers, reverses the process and the economy starts to come out of the low part of the cycle.

This cyclical deterioration process seems to have been the situation that the Costa Rican economy faced after 1977, during which period the terms of trade fell drastically (Table 1-3.) The fall in the terms of exchange originated not only in the increases in unit values of imports, but also in the drop in unit prices of the principal export products.

The government responded to this drop in the purchasing power of exports with expansive fiscal and monetary policies, which contributed substantially to the creation of a financial disbalance, both external and internal.

In the external area, the financial disbalance originated in the fact that imports substantially exceed exports, and in 1980 a deficit in current account of US$ 612 million was reached.1/ The net capital flow, mainly through borrowing by the public sector, dropped and therefore the pressure centered on international monetary reserves. These started to decrease in 1979, and in December, 1980, they reached a negative position of close to US$95

1/ The deficit in current account dropped close to US$ 250 million in 1981 as a result of the rapid devaluation process that occurred as of the end of 1980.

TABLE 1.3 COSTA RICA: RECENT EVOLUTION OF THE MAIN ECONOMIC INDICATORS. 1976-1980

INDICATORS	1976	1977	1978	1979	1980*
1. PRODUCTION (Gross National Product)					
a. Total (growth rate)	5.5	8.9	6.3	4.9	1.2
b. Primary Sector (growth rate)	0.5	2.2	6.6	0.5	-0.9
c. Secondary Sector (growth rate)	8.7	10.8	7.7	6.0	1.4
d. Terciary Sector (growth rate)	5.9	10.5	5.4	6.0	1.9
2. EMPLOYMENT AND INCOME					
a. Open unemployment rate (percentage)	6.3	4.6	4.6	4.9	5.9
b. Overall underutilization rate (percentage)	13.2	11.2	10.9	12.5	13.5
c. Real salaries and wages (growth rate)	4.5	9.2	9.0	4.7	-4.5
d. Gross income per inhabitant (growth rate)	9.7	15.2	-2.4	-3.3	-3.6
3. PRICES[1]					
a. Prices to consumer (growth rate)	11.5	4.2	6.5	9.2	18.1
b. Wholesale prices (growth rate)	9.3	7.5	7.8	17.4	23.8
4. EXTERNAL SECTOR					
a. Ratio of exchange prices (growth rate)	13.8	35.5	-10.6	-8.2	-6.8
b. Purchasing power of exports (growth rate)	15.6	37.2	-0.5	-7.9	-9.9
c. Balance of trade for goods and services (million $)	-146	-167	-269	-451	-446
d. Current account balance (million $)	-203	-226	-362	-574	-612
e. Variation in international reserves (million $)	42	119	30	-103	-175
f. Balance foreign public debt (million $)	646	833	1.044	1.396	1.811
g. Service of debt with regard to exports (percentage)	10.7	10.9	17.9	18.0	21.1
5. FISCAL SECTOR[2]					
a. Total public expense (growth rate)	12.7	25.4	12.0	12.5	-0.1
b. Ordinary expenses of public sector (growth rate)	15.4	12.0	15.7	10.9	3.5
c. Savings in current account (millions of colones)	573	882	760	-69	-358
d. Fiscal deficit with regard to total expense (percentage)	23.2	29.4	30.5	38.7	38.1
6. MONETARY SECTOR					
a. Money (growth rate)	18.6	14.4	9.8	-2.3	-3.4
b. Total credit (growth rate)	12.1	14.2	15.5	23.7	4.0
c. Credit to public sector (percentage total credit)	20.1	25.0	27.5	37.2	42.6

*/ Preliminary figures

1/ Mean levels for the year.

2/ Refers to the public sector as a whole. The savings in current account refers to the general government (central government + local governments + public service institutions).

SOURCE: Prepared by IICA [illegible]

million. During 1981, the reserve situation became more critical and in August of that year, the government was forced to suspend almost all payments for the service of the debt.

In the internal area, the financial disbalance is explained by an expansion in public spending which was not accompanied by a similar growth in fiscal revenues, so the government had to resort increasingly to financing from the Central Bank through the issue of currency.

The strong expansion of public spending was centered mainly in the Central Government and in institutions connected with health services (Costa Rican Social Security) and education (universities). Furthermore, the make-up of expenses reveals that it is the regular expenses that increase most significantly, and this increase is explained by a growth in financing costs and, basically, in compensations.

The increase in compensation is due to an increase in employment in the sector, but also to a strong growth in the wage rates per person paid by the public sector, which became the main cause of the pressures due to excessive demand originated in the public sector. These pressures finally translate into an increase in the dependence on external savings and in an increase in internal inflation, although favorable employment levels are maintained until 1979.

Furthermore, the Government, in order to be able to continue importing and partly solve financial disbalances, increasingly resorted to foreign borrowing. The balance of the debt, at the end of 1981, reached $2,300 million, that is, more than 300% above

1978. For its part, the service of the debt increases rapidly, passing from 11% of exports in 1977 to more than 25% in 1981. This increase in the Service of the Foreign Public Debt originates not only in the high levels of indebtedness, but also in other factors: the end of the grace period, the change-over toward more onerous sources of financing and the high rates of interest prevailing in the international economy.

The magnitude of the Service of the Debt, for all practical purposes, brought about the impossibility of the Government to obtain new credits abroad. This fact, coupled to the loss in international monetary reserves, reflects the inability of the country to meet external payments. In short, the results of the crisis translate into a stagnation of the economy, an inflationary spiral, a significant increase in unemployment, and a devaluation that varied the rate of exchange from US$1.00 = ₡8.60 in September, 1980, to more than US$1.00 = ₡50.00 (₡52.18) in mid-June, 1982.

1.5 SOME RESULTS TO BE STRESSED

i) The risk of foreign exchange is a very important factor to be considered in any foreign cooperation program that could be planned for Costa Rica. The evidence shows that private enterprises do not wish loans in dollars for fear of devaluation. In case a fixed rate of exchange is not attained (which seems unlikely over a short term), it would be necessary to seek formulas for diminishing or sharing the exchange risk.

ii) It would not seem wise to develop the policy of reactivating the private sector on a widespread basis but to do so on

a selective basis, stimulating and furthering those activities which, either because of the value added, the generation of foreign exchange, the creation of jobs, or some other reason, are considered "advisable for the country".

iii) Many companies that could be considered "advisable for the country" are not, at present (because of their economic and financial situation) likely candidates for bank credit. The worse the situation of the business and greater its difficulties, the harder it becomes, from the banking viewpoint (greater risk) to give it the help it needs to survive. In these cases it is essential to design mechanisms that will allow supporting these businesses which are on the verge of collapse. Perhaps the solution lies along the lines of sharing the risk.

iv) A valid question that seems to arise from the present problems of Costa Rica is whether the help is to be given to the enterprise or to the entrepreneur. This brings out several situations to be considered, depending on the "advisability of the enterprise for the country", and on the ability and reliability of the entrepreneur. Should help be given to a company that does not qualify as "advisable for the country" but where the entrepreneur is an honest, hard-working and respected man? Or, on the contrary, is it justified to back a company that is very important for the country when it is shown that a large part of its problems are due to the fact that the entrepreneur decapitalized it for his own benefit? We believe that the

answer to these questions is extremely important.

v) Throughout the study, the high positive correlation existing between the bank credit given to the private sector and the investment and production by said sector become evident. This brings out at least two things. On the one hand, that in order to increase investment and encourage production, the credit variable is highly significant; and on the other, that Costa Rican entrepreneurs act in unison in their aversion to risk when it involves their own resources. It could also mean, before 1978, a utilization of the existing conditions of subsidized credit.

As to the relationship between credit and investment/production, this places the monetary authorities before a dilemma to the extent that an effort is made to reactivat the economy by trying to reduce inflation (by cutting down the issuing of currency and, thus, credit).

As regards the aversion to risk, there are signs that not only the entrepreneurs are not, at present, willing to venture their own resources in productive activities, but that they are even "pulling out" from the enterprises, the investments previously made (through the mechanism of mortgage loans and pledges).

vi) This apparent aversion to risk on the part of entrepreneurs and the high correlation between credit and investment/production could, if indiscriminate credit programs were put into effect without adequate controls to prevent the diversion of the credit, result in the resources not ac-

tually being used for increasing production but rather to financial activities (more profitable and less risky) or, what is worse, being converted into dollars and taken out of the country.

These options, of course, bring up for discussion a more fundamental aspect: the willingness and attitude of entrepreneurs (assuming a rational behavior of maximizing profits) not only to reactivate the economy with the required speed, but also to contribute, even though it may be over a medium term (owing to the present conditions and those forseen) to achieve a true recovery of the country's economy.

vii) In regard to the technical ability to reactivate the productive private sector, it would seem that notwithstanding the fact that there is idle installed capacity (at least in the industrial sector), it does not turn out to be as ample as some people have thought, particularly if the idea of "optimum utilization" of installed capacity is applied, in accordance with the opinion of the entrepreneur, instead of the traditional idea of the use of facilities and equipment (3 shifts/24 hours). This situation means having to increase investment and possibly continuing the importation of capital goods.

viii) A problem that at present arises but that in the future it would seem to become worse, is that of working capital. The inflationary process, as well as the rapid devaluation of the colón, have caused a significant reduction the liquidity of businesses. This fact, together with the im-

possibility (in some cases) or of not considering the cost of replacement in fixing the selling price, brings about a decapitalization (in real terms) that has already placed various companies in a pinch, and which possibly in the forthcoming months will become more evident and acute.

ix) The evolution of the Costa Rican private sector in which there predominate, on the one hand, personal and family concerns financed with direct credit, and on the other, transnational companies that have access to their own financial resources; together with a lack of a developed and expedite capital market, constitute a restriction and an obstacle to help the companies through increases in capital stock.

However, as is logical, the fact that at present there are real restrictions for entrepreneurs to be willing to accept increases in capital stock of their companies, does not mean that measures cannot be adopted to encourage or to force this kind of help for the companies. On the contrary, this line of action would seem to be promising and it would be worth while to give it further thought and study, particularly for those companies that have commitments in arrears with institutions of the National Banking System.

x) At present there is, under discussion in the country, the option of expanding the scope of private economic activity by creating a so-called "Labor Economic Sector" to stimulate the setting up of cooperatives and self-managed enterprises.

While the bill submitted to the Legislative Assembly can turn out to be controversial and require adjustments and streamlining, the idea would seem to be justified to the extent that: (i) it would contribute to democratize ownership of the means of production that, during the past few years, have gone through a process of concentration; (ii) it would be one way (by creating productive enterprises) to contribute to economic reactivation; (iii) it would further the appearance of new entrepreneurs, and (iv) from a socio-political perspective, it would expand the Private Enterprise/State combination by including a new element: the social-ownership private enterprise.

Obviously promoting the creation of a Labor Economic Sector and furthering the organization of cooperatives and self-managed enterprises is a hard and complex job full of obstacles and limitations of various kinds.

xi) In examining the situation of the national economy, it is evident (and this has been pointed out in many studies) that it is not possible to achieve recovery if it is not by stimulating export activities. However, it must not be forgotten that almost all of the Costa Rican private enterprises are oriented toward the domestic market; and that said reality could not be modified radically. For this reason, the reactivation of the private sector will have to be related, of necessity, to the reactivation of domestic demand and this, in turn, will be in terms of the overall economic policies and the recovery of the purchasing power of the people's income.

xii) With regard to the increase in exports, this would seem to be the right time to launch an agressive program for such purpose. Not only has devaluation reduced the price of Costa Rican goods in relative terms, but some Central American countries have reduced their volume of exports, leaving markets open. Furthermore, there is the favorable attitude of the United States for a more ample opening of its markets.

In this sense, the identification of markets and products for export; the organization of export pools and of international marketing concerns; the development of Free Zones and of grain milling industries; and the setting up and strengthening of support instruments: credit and insurance for export, information systems, administrative simplification of processing, etc. are some of the actions that deserve to be supported.

xiii) The legislation in force seems to be prodigal as to incentives for private enterprise. These, however, seem to be oriented, particularly, toward the exemption of customs duties that further the importation of intermediate goods and raw material, toward exemption of income tax, which reduces fiscal revenues; and toward the promotion, rather indiscriminately, of exports. It is considered necessary to revise existing incentives carefully in order to consolidate those that are justified in the present circumstances and eliminate those whose existence is not necessary.

xiv) In order to promote foreign investment in the country, which is considered necessary, some elements are required. In the first place, a policy definition as to which are the areas or activities in which it is desired, or else, the areas or activities in which it will not be permitted. In the second place, the clear and precise establishment (preferibly by law) of the standards and rules that will govern foreign investment. Among others, the repatriation of dividends and of foreign exchange seem to be key elements. Of course, it would also be necessary that the general economic policies be well defined so that any prospective foreign investors will have all of the necessary information when making their calculations of profitability and risk. An aggressive strategy for attracting foreign investment would be imperative.

At present, several of these elements are lacking for which reason any support to incorporate them would be of great value.

2. ANALYSIS AND EVALUATION OF THE AGRICULTURAL SECTOR

2.1 RECENT EVOLUTION AND PRESENT STATUS

2.1.1 Production Behavior

2.1.1.1 Agricultural and Livestock Production

In 1981, and after two years of a marked standstill, the agricultural and livestock sector shows a certain recovery in its growth rate as a result of substantial increases in the physical volume of the production of some of the main export products (coffee, bananas, and beef) as a result of the increased revenues, in colones, due to the devaluation of the currency.

While the overall gross national product shows, in 1981, a negative growth rate of -3.6 per cent, the agriculture and livestock gross national product recovers and goes over from a negative rate of 0.8 per cent in 1980 to a positive rate of 2.3 for 1981. (Table 1).

The growth in the agricultural and livestock GNP and the drop in the overall GNP translates into a larger share of the sector in the generation of such product. This share, for 1981, exceeds 22 per cent, which figure is greater than the one it had attained during the last few years. (Table 2).

In view of the fact that the value of traditional export products represents more than 50 per cent of the gross value of agricultural and livestock output, the increases in their annual growth rates contributed substantially to the recovery of the sector. (Tables 3 and 4). Coffee held

TABLE 2-1

OVERALL GROSS NATIONAL PRODUCT

AGRICULTURAL AND LIVESTOCK GROSS NATIONAL PRODUCT

(At producer prices, 1976 base)

-actual annual growth rate-

YEAR	GNP	AGRICULTURAL/LIVESTOCK GNP
1976	5.5	0.5
1977	8.9	2.2
1978	6.3	6.6
1979	4.9	0.5
1980	0.6	-0.8
1981*	-3.6	2.3

* Preliminary figures

Source: Costa Rica Central Bank

TABLE 2-2

SHARE OF THE AGRICULTURAL/LIVESTOCK SECTOR IN THE GNP

YEAR	GNP (millions of ¢) (1)	AGRICULTURAL/LIVESTOCK GNP (millions of C) (2)	2/1 SHARE %
1976	20675.6	4212.9	20.4
1977	26330.7	5762.6	21.9
1978	30193.9	6163.7	20.4
1979	34584.4	6398.6	18.5
1980	41102.9	7204.8	17.4
1981*	60559.8	13816.6	22.8

* Preliminary figures

Source: Costa Rica Central Bank

TABLE 2-3

SHARE OF THE VARIOUS AGRICULTURAL/LIVESTOCK PRODUCTS IN THE GROSS PRODUCTION VALUE

(percentage)

	1976	1977	1978	1979	1980	1981
Export products	59.2	66.5	64.1	60.5	59.4	68 3
Staple cereals	8.7	6.3	6.3	6.1	6.7	6.2
Other agricultural produce	8.6	8.0	8.9	9.0	9.3	6.4
Other products of animal origin	16.4	13.7	14.8	14.8	15.9	12.6
Fishery	1.3	1.1	1.4	1.9	1.4	1.6
Timber	5.4	4.0	3.7	4.3	4.2	2.8
Agricultural improvements	0.4	0.4	0.8	3.4	3.1	2.1

Source: Costa Rica Central Bank

TABLE 2-4

GROSS VALUE OF AGRICULTURAL/LIVESTOCK PRODUCTION AT 1966 PRICES
-annual growth rates-

PRODUCT	1976	1977	1978	1979	1980	1981
Coffee	-4.1	6.6	13.0	-	10.4	5.1
Bananas	-3.3	-6.6	5.4	-3.0	-6.2	5.4
Sugar cane	-1.4	9.9	2.4	1.4	-3.8	0.2
Cacao	-11.4	31.4	34.9	-0.1	-49.3	-5.9
Staple cereals	9.7	-2.9	5.7	5.1	9.7	-10.1
Other agricultural produce	5.8	14.0	-6.3	-3.3	7.0	-16.5
Cattle and hogs	-0.8	7.5	10.0	-0.9	-13.8	19.5
Fishery	14.2	1.6	29.6	17.8	-29.1	-4.6
Other products of animal origin	7.3	5.4	3.2	0.9	2.1	1.3
Timber	19.5	-10.0	-10.4	-	-2.1	-2.7
Agricultural improvements	-43.0	69.0	78.9	103.6	24.0	-18.3
TOTAL	1.2	2.6	6.5	1.1	-0.6	1.7

Source: Costa Rica Central Bank

positive growth rates, while bananas, sugar cane and beef, which showed negative growth rates in 1980, recover until they reach substantial positive rates in 1981.

In turn, agricultural and livestock products intended for domestic consumption experienced drastic drops in the value of their production at constant prices since they did not benefit from the currency devaluation, as did export products. In addition to this, their production costs jumped dramatically as a result of the increase in the cost of the imported inputs they use.

As regards the evolution of physical production volumes, most of the agricultural products have stopped their growth rate, and only rice production shows a substantial growth. (Table 5).

One of the causes of this stagnation in production is that the yield per hectare has remained at a standstill during the last few years, except in the case of coffee, where the 1980-1981 crop showed an increase of 33 per cent in yield, as against the previous crop, due to favorable weather conditions and to the direct results of plantation improvements which have been under way since 1976. (Table 6).

A series of new crops have been developed during the last few years, an important part of their output being exported. These include melons, chayotes, ginger, etc. However, the area planted in these crops is still small, and so is their share in the gross national product and in exports.

TABLE 2-5

PHYSICAL VOLUMES OF AGRICULTURAL/LIVESTOCK PRODUCTION

	UNIT	1976	1977	1978	1979	1980	1981
Export products:							
coffee	Thousands metric tons	81.8	87.22	98.5	98.6	108.8	114.3
bananas	"	1187.1	1124.7	1183.0	1154.3	1091.6	1147.5
sugar cane	"	2291.6	2519.4	2578.7	2615.1	2516.4	2521.0
cacao	"	5.9	7.7	10.4	10.4	5.3	4.8
beef	"	125.0	134.1	146.0	137.3	114.9	140.7
Staple cereals:							
rice	"	105.9	110.0	123,6	137,2	151.8	209.5
corn	"	114.0	84.7	62.3	72.9	74.6	85.0
beans	"	16.2	14.1	14.0	11.3	11.5	12.3
sorghum	"	30.9	42.0	52.6	33.4	41.6	29.8
Other agricultural produce:							
cotton	"	1,6	7.0	2.7	1.1	0.8	0.5
tobacco	"	3.2	2.8	2.4	2.1	1.7	1.9
potatoes	"	24.7	25.4	26.0	26.8	27.1	13.7
yucca	"	13.5	14.1	13.8	14.5	18.1	17.0
plantains	"	65.4	69.4	76.3	81.4	94.6	89.4
onions	"	3.6	3.7	2.8	3.4	4.2	3.5
Other products of animal origin:							
hogs	"	11.5	12.5	14.9	20.1	19.7	21.4
poultry	"	5.4	5.4	5.6	5.6	5.9	6.1
milk	Mill.liters	271.8	290.3	300.8	306.1	308.3	320.3
eggs	Mill.units	389.3	368.7	376.1	370.1	391.4	392.1
fishery	Thousands metric tons	15.9	16.2	21.0	24.7	17.5	16.7
lumber	Thousands cub.meters	802.0	721.8	649.6	649.6	635.8	618.6

Source: Costa Rica Central Bank

TABLE 2-6

YIELD OF PRINCIPAL AGRICULTURAL PRODUCTS
(Metric tons/hectare)

	75-76	76-77	77-78	78-79	79-80	80-81	81-82
Staple cereals[a)]							
threshed rice	2,2	1.9	2.4	2.6	2.9	2.9	2.7
corn	1.4	1.7	1.8	1.7	1.7	1.9	1.7
beans	0.5	0.5	0.6	0.5	0.5	0.5	0.5
sorghum	1.8	1.6	1.6	2.2	1.8	2.0	1.9
Export							
coffee beans	5.2	5.2	6.2	7.1	6.0	8.0	-
bananas b)	3555	37.8	37.9	38.1	34.3	n.a.	-
sugar cane	64.7	68.2	71.3	72.3	67.0	67.0	-
Other							
cotton	0.7	0.6	0.5	0.3	0.2	0.3	-
tobacco	1.3	1.4	1.4	1.2	1.3	1.4	-

a) As to staple cereals, the National Production Council has estimated the following yields for the 82-83 crop: rice, 2.9; corn, 1.8; potatoes, 0.6; and sorghum, 1.8.

b) Calendar year, applies to the last year recorded.

n.a. Not available

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning.

Another crop that has made considerable strides is oil palm, which, in many cases, has replaced banana plantations. This crop has been developed in order to supply raw material for the oil industry, which serves the domestic market and substitutes for imports.

Notwithstanding these new agricultural/livestock developments, traditional products are still the mos important and the Costa Rican economy is highly dependent on world prices of such products in order to attain any development goals.

2.1.1.2 Agro-industrial Production

At the present time, the agro-industrial development of agricultural products includes:

i. processing of fruits and vegetables
ii. processing of vegetable oils and fats
iii. milling products
iv. coffee mills
v. sugar mills and refineries
vi. manufacturing of cocoa and chocolates
vii. tobacco industry
viii. manufacturing animal feed
ix. cotton gins

This industrial activity shows an acceptable spatial coverage and a satisfactory utilization of its installed capacity. For example, the industrialization of fruits and vegetables has been located close to the production centers, and present projects follow this trend toward decentralization.

This is also apparent in the production of sugar, where sugar mills in the traditional area of the Central Valley have been closed down, and new factories have been installed in the Guanacaste area.

As regards the industrialization of products originating in the livestock subsector, it includes the processing of beef cattle, hogs, poultry, dairy products, and the utilization of by-products such as hides, blood and bones in making flour for animal feed. In the processing of beef cattle there has been a rearrangement in the number of plants in order to achieve a better utilization of installed plant capacity and, at the same time, to seek the regionalization of this agro-industry.

In regard to the industrialization of marine products, steps have been taken to strengthen the development thereof, for example by installing a processing terminal for export products at Cuajiniquil.

Lastly, in the timber industry, efforts have been addressed toward a better utilization of installed capacity.

In spite of these efforts, the sector industrializing agricultural/livestock products has shown important negative variations in physical volume beginning in 1980, according to the Industrial Situation Study prepared by the "Instituto de Investigación en Ciencias Económicas" (Economics Research Institute) of the University of Costa Rica.

The groupings of the agro-industrial sector (food, beverages and tobacco) showed negative values, except for cof-

fee mills, sugar production and cattle slaughtering. In the food line, with the exception of the manufacturing of vegetable oils, the other industries show negative variations, and, according to the above-mentioned study, the ones that have suffered the most are the ones engaged in the processing of fish and the manufacturing of cocoa, chocolate and candy.

The manufacturing of footwear and leather goods is the agro-industrial group that shows one of the greatest positive variations within the industrial sector in 1981. (8.5) Lastly, as to by-products of forestry exports (lumber, wood products and furniture) after their physical volume increased in 1980, the activity of lumber mills has been seriously affected in 1981, the volume of production having dropped. (Table 7).

As regards the industrialization of traditional export products, after showing decreasing rates in 1980, both coffee and beef have increased their physical volume substantially in 1981. This has not been the case with sugar, which has had negative rate changes in the past two years.

The importance of traditional products within the agro-industrial sector is such, that including them in the calculation of the changes of the physical production volumes, substantially affect the results. In 1980, when these products show negative variations, the percentage variation of the physical volume of food production becomes zero and that of the industry as a whole drops from 5.8 to 3.7 per cent. In 1981, in spite of the increase observed in the production volume of coffee and

TABLE 2-7

EVOLUTION OF COSTA RICAN AGRO-INDUSTRIAL PRODUCTION
(variation in physical volume of production as against the preceding year)1)

	1978	1979	1980	1981	1982*
Industry total	8.7	3.7	5.8	-4.6	1.4
Food, beverages and tabacco	9.6	6.3	-0.4	-3.6	0.6
-Food items	n.a.	6.8	9.6	-4.9	n.a.
-Beverages	n.a.	8.2	-9.6	-1.9	n.a.
-Tobacco industry	n.a.	0.5	-7.2	-4.1	n.a.
-Footwear and leather goods	n.a.	-3.9	15.0	8.5	n.a.
Lumber, wood products and furniture	-8.5	2.7	11.2	-4.6	-2.3

1) Does not include beef, coffee and sugar

* Estimates by industrial concerns

Source: Economics Research Institute, University of Costa Rica, Study of Industrial Status

beef, industrial contraction was such that the variation in the sector, including coffee, beef and sugar, continues to show a negative sign. However, in food production, the variation becomes positive, going as high as 7 per cent and as low as -4.9 per cent, if these three products are not considered. (Table 2-8)

2.1.2 Financing

2.1.2.1 The National Banking System and the agricultural/livestock sector

A large part of the credit used by the agricultural/livestock sector comes from the National Banking System and for this reason it is interesting to analyze how the latter operates in connection with the sector.

The National Banking System is made up of:

i) The Costa Rica Central Bank

ii) The commercial banks: Banco Nacional de Costa Rica
Banco de Costa Rica
Banco Anglo-Costarricense
Banco Crédito Agrícola de Cartago

iii) The private commercial banks, set up and managed pursuant to the organic law of the National Banking System.

Credit applications made to the commercial banks of the system are handled by: the Bank Manager if the request does not exceed 0.5 million colones. If it is for more than this amount but is less than one million colones, the appli-

TABLE 2-8

EVOLUTION OF AGRO-INDUSTRIAL PRODUCTION, INCLUDING COFFEE, BEEF AND SUGAR

(Variation in physical volume of production as against the previous year)

	1976	1977	1978	1979	1980	1981
Industry total	n.a.	n.a.	9.6	3.1	3.7	-0.6
food, tobacco and beverages	n.a.	n.a.	11.5	4.1	-3.3	3.8
food items	n.a.	n.a.	9.9	2.5	-	7.0
coffee	-4.8	-2.7	16.9	15.0	-13.2	33.9
sugar	-3.2	12.7	-1.8	1.7	-2.4	-8.1
cacao	5.8	22.1	8.6	-3.3	-11.6	16.8

Source: Economics Research Institute, University of Costa Rica, Study of Industrial Status

cation is acted on by the Manager and the Assistant Manager of the institution. In the case of higher amounts, the Credit Committee that studies requests amounting to a maximum of 25 million colones, has to meet. If the credit application is for an even higher amount, it must be studied and acted on by the Board of Directors. However, in no case may credit be given to an applicant for a sum larger than 6 per cent of the bank's assets.

For handling loans requested by small farmers, there have been organized the "Juntas Rurales de Crédito" (Rural Credit Boards), under the Banco Nacional de Costa Rica.

The procedures for granting the loans that are of interest are the following:

i) Repayment of loan: Payment must be made on date of maturity. In case payments are made in advance, the interest paid in advance and not earned will be returned. Payments may be agreed on in installments payable in periods of no more than one year.

If the term of the loan is greater than 3 years, appropriate installments must be fixed, except in cases where the investment does not begin to yield income until after a certain length of time, during which period the installments may be postponed.

The debt is considered to be due and legally enforceable by default of one single interest or principal payment.

ii) Security: loans must be secured by a first mortgage or by means of a first mortgage certificate, legally estab-

lished. However, in many loans, the future crop is used as a guarantee.

iii) Maximum loan: Mortgage departments of the commercial banks: 5% of the capital and legal reserves of the mortgage department in the rural credit department of the Banco Nacional de Costa Rica and the credit sections for small farmers of other banks, 300,000 colones. This credit is constrained to persons having a maximum gross annual income of 180,000 colones, and the maximum limit is 4 per cent of the bank's capital and reserves.

Other public institutions involved in agricultural credit are:

i) The "Instituto de Tierras y Colonización - ITCO" (the Land and Settlement Institute", which grants credit to its beneficiaries, which credits are included in its budget. However, beginning in 1980 due to budget problems, ITCO has stopped granting loans. In that year, the "Caja Agraria" (Agrarian Fund) was created for the purpose of giving loans to farmers in the Atlantic Huétar region, through the implementation of the G CR-T-034 AID Loan Agreement.

ii) The "Corporación para el Desarrollo Agroindustrial Costarricense, S.A. (DAISA)"(the corporation for the agroindustrial development of Costa Rica), a subsidiary of the "Corporación Costarricense de Desarrollo, S.A. (CODESA)" (Costa Rican Development Corporation), offers security

as a co-signer, for loans given by the National Banking System to farmers wishing to plant melon, pineapple, ginger and peanuts.

The "Instituto de Fomento Cooperativo (INFOCOOP)" (Institute for Cooperative Development) gives loans to the cooperative sector, with a ceiling of 15 per cent of the cooperative's equity, while loans for second degree cooperative organizations, the ceiling is 20 per cent of INFOCOOP's equity.

Another limitation refers to investment credit, which may not exceed 10 times the equity of each cooperative, or 80 per cent of the value of the investment.

INFOCOOP offers three kinds of loans: short-term (a maximum of one year), medium-term (a maximum of five years), and long-term (up to 10 years).

Up to 1980, the Costa Rica Central Bank defined the amount of loans for the agricultural/livestock sector on an overall basis. At the present time, the Credit Program for the Agricultural/Livestock Sector is prepared by the Executive Secretariat for Agricultural/Livestock Sectorial Planning (SEPSA) in coordination with the various entities of the sector, and they jointly decide the specific activities to be financed and the amount per activity.

The funds available to the National Banking System for making loans come from the repayment of other loans, from increases in deposits and from foreign loans.

2.1.2.2 Evolution of financing for the sector

Loans given to the agricultural/livestock sector are broken down into investment loans and operating loans. For the purposes of this analysis, these two categories are taken together, since investment loans in general are given both to finance activities such as preparing the soil and buying seed -- that is, the activities required to obtain future crops -- and for the purchase of machinery, equipment, or investment in land.

The share of the agricultural/livestock sector in the financing given by the National Banking System to private activities has increased considerably during the last few years, having exceeded 40 per cent in 1980 and 1981. In the 1982 credit program, this share is even greater. It runs as high as 77.2 per cent. (Table 9).

However, this figure does not represent all of the public financing given to the sector, because there is also financing for agricultural activities of the government. (Table 10). The financing for the agricultural activities of the public sector represents more than 40 per cent of the overall public financing for the sector, which includes contributions by the Central Government to the Ministry of Agriculture and Livestock, the revenues from the budget of each of the institutions making up the rest of the agricultural public sector, which are directly or indirectly involved in the activity, such as ITCO, the National Production Council and other decentralized agencies. Also included are foreign loans granted to these institutions.

TABLE 2-9

EVOLUTION OF CREDIT FOR THE AGRICULTURAL/LIVESTOCK SECTOR

(millions of colones)

	1976	1977	1978	1979	1980	1981	1982*
Total credit	5301.0	5765.1	6844.1	7299.6	7209.4	8785.1	10933.9
Credit for agricultural/ livestock sector:							
-amount	2012.0	2178.5	2537.2	2707.1	3044.7	3880.0	8440.8
-percentage of total	38.0	37.8	37.0	37.1	42.2	44.2	77.2
Percentage variation							
-total credit	14.1	8.8	18.7	6.7	-1.2	21.9	24.5
-agricultural/ livestock	14.2	8.3	16.5	6.7	12.5	27.4	117.5

* scheduled

Sources: Costa Rica Central Bank and Executive Secretariat for Agricultural/Livestock Sectorial Planning

TABLE 2-10

PUBLIC FINANCING OF THE AGRICULTURAL/LIVESTOCK SECTOR
(millions of colones)

	TO THE PUBLIC SECTOR			TO THE PRIVATE SECTOR			TOTAL		
	INTERNAL RESOURCES	EXTERNAL RESOURCES	TOTAL	INTERNAL RESOURCES	EXTERNAL RESOURCES	TOTAL	INTERNAL RESOURCES	EXTERNAL RESOURCES	TOTAL
1976									
amount	1046.4	228.6	1275.0	1927.5	84.5	2012.0	2973.9	313.1	3287.0
% of total			38.8			61.2	90.5	9.5	100.0
% of sector	82.1	17.9	100.0	95.8	4.2	100.0			
1977									
amount	1597.8	432.3	2029.1	2006.4	172.1	2178.5	3603.2	604.4	4207.6
% of total			48.2			51.8	85.6	14.4	100.0
% of sector	78.7	21.3	100.0	92.1	7.9	100.0			
1978									
amount	1878.6	341.8	2220.4	2468.7	68.5	2537.2	4347.3	410.3	4757.6
% of total			46.7			53.3	91.4	8.6	100.0
% of sector	84.6	15.4	100.0	97.3	2.7	100.0			
1979									
amount	1917.1	631.3	2548.4	2376.8	330.3	2707.1	4293.9	961.6	5255.5
% of total			48.5			51.5	81.7	18.3	100.0
% of sector	75.2	24.8	100.0	87.8	12.2	100.0			
1980									
amount	2227.1	464.6	2691.7	2944.2	100.5	3044.7	5171.3	565.1	5736.4
% of total			46.9			53.1	90.1	9.9	100.0
% of sector	82.7	17.3	100.0	96.6	3.3	100.0			

	TO THE PUBLIC SECTOR			TO THE PRIVATE SECTOR			TOTAL		
	INTERNAL RESOURCES	EXTERNAL RESOURCES	TOTAL	INTERNAL RESOURCES	EXTERNAL RESOURCES	TOTAL	INTERNAL RESOURCES	EXTERNAL RESOURCES	TOTAL
1981									
amount	n.a.	n.a.	2235.0	n.a.	n.a.	3880.0	n.a.	n.a.	6115.0
% of total			36,5			63,5			100.0
1982									
amount	n.a.	n.a.	3277.5	n.a.	n.a.	8440.8	n.a.	n.a.	11718.3
% of total			28.0			72.0			100.0

• Budgeted

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning, and Costa Rica Central Bank

In regard to the origin of the funds used by the government to finance both the public and the private agricultural/livestock activities, they are mostly internal resources -- more than 80 per cent. The utilization of foreign resources is greater in the financing of public activities than for financing the activities developed by the private sector.

It is interesting to analyze the share of the gross value of agricultural/livestock production that is financed with funds administered by the government, whether these are local resources or funds from foreign loans granted to the public sector. (Table 11)

As may be seen, close to 60 per cent of the gross production value is generated through the utilization of government financing. However, in 1981 this share drops substantially, as a result of the devaluation process and the resulting inflation, because when the credit program was drawn up, the effects of this process were not considered and therefore, the volume of credit was not adjusted to the same extent as the price index.

In 1981, the increase in amount of credit was 6.6 per cent, while the gross production value increased by 79 per cent, as a result of a substantial increase in prices in colones, for agricultural/livestock products because, as it was explained above, physical production values remained at levels similar to those of the previous year.

This circumstance changed the trend that had existed until 1981, where the annual variation rates of credit

TABLE 2-11

RATIO OF GROSS AGRICULTURAL/LIVESTOCK PRODUCTION VALUE TO CREDIT FOR THE AGRICULTURAL/LIVESTOCK SECTOR COLONES IN NOMINAL TERMS

(millions of colones)

	GPV (1)	CREDIT(2)	PERCENTAGE 2/1	ANNUAL VARIATION RATES GPV	CREDIT
1976	5675.7	3287.0	52.7	-	-
1977	7349.7	4207.6	57.2	29.5	28.0
1978	7935.2	4757.6	60.0	8.4	13.1
1979	8642.1	5255.5	60.8	8.9	10.5
1980	9950.1	5736.4	57.7	15.1	9.2
1981	17799.7	6115.0	34.4	79.0	6.6
1982*	29000.0 1)	11718.3 2)	40.5	62.6	91.6

1) Proportion.
2) Credit program

Source: Drawn up by us on basis of data from the Costa Rica Central Bank

in nominal terms colones had exceeded those of the gross production value.

At the same time, it must be stated that farmers also resort to other financing sources of a private nature, such as credits given by suppliers of domestic and foreign agricultural inputs, advances by virtue of exports, etc.

While there are no data on the volume of such financing, if it were taken into consideration it would increase the share of the production value generated through credit, and it would result in a very low utilization of their own resources.

Since the financing is required to cover production costs and not the gross value thereof, the utilization of the farmers' own resources will be less, even in the last few years, since the variation in production costs, while it has been greater than in previous years, due to the increase of the price in colones, of inputs and imported production factors, it has not gone up as much as the gross production value.

The above is due to the existence of a high local value-added in agricultural/livestock production and to the important share of the gross production value represented by export products, which have shown considerable increases in yield as a result of devaluation.

Let us now examine what has happened in the specific case of rice, and the situation in regard to the

staple cereals in the 1982 credit program. (Tables 12 and 13)

As may be seen in Table 12, the share of the production cost of rice that is financed with credit from the National Banking System is very high, and it shows a considerable decrease in the 1980-1981 crop, due to the fact that the credit program did not provide for the increase in costs or the increase in area to be planted.

For 1982, it is planned to cover an even larger share of the production cost of staple cereals with the credit given by the National Banking System, going as high as 90 per cent in rice and almost 100 per cent in corn.

In general, the behavior of the Costa Rican agricultural/livestock sector shows a high share of resources from the public sector financing production costs. At the same time, it must be taken into account that there exist other sources of direct financing, both external, as in the case of advances on the coffee crop, and internal, as in the case of credit offered by input and machinery suppliers to farmers.

Therefore, one important fact to be considered in the future development of agricultural/livestock activity is that Costa Rican farmers are extremely dependent on financing in order to operate their farms and that, in general, they do not use their own resources for such purpose, either because they are unable or unwilling to capitalize or because of their aversion to risk is so great that they do not find it profitable to use their own resources.

At the same time, the availability of an abundant volume of credit at subsidized interest rates, up to 1980, and

TABLE 2-12

CREDIT AND COSTS IN RICE PRODUCTION

	1978-1979	1979-1980	1980-1981	1981-1982	1982-1983
Cost/ha. (₡)	455616	5089.9	7064.5	9987.4	21662.5
Has. planted	73747	81216	84629	72494	85000
Total cost (million ₡)	336.04	413.37	598.71	724.03	1841.32
Credit for rice (1)	236.4	209.6	260.7	442.8	1592.7(2)
Share of credit	70.3	50.7	43.5	61.2	86.5

(1) Market rate, does not include credit to small farmers planting rice

(2) Scheduled

Source: National Production Council and Costa Rica Central Bank.

TABLE 2-13

RATIO OF COST TO CREDIT SCHEDULED FOR THE PRODUCTION OF STAPLE CEREALS FOR THE 1982-1983 CROP

	RICE	BEANS	CORN	SORGHUM
Production cost/ha. (¢)	21663.59	16668.11	15057.59	14154.67
Number of hectares to be planted	85000	32000	49800	45000
Total cost of crop (millions of ¢)	1841.32	533.32	749.87	636.96
Loan per hectare (¢)	17244.00	11222.00	11616.00	10515.00
% of cost	79.6	67.3	77.1	74,3
Scheduled program				
(1) (millions ¢)	1592.7	392.8	737.9	208.5
% of total cost	86.5	73.6	98.4	32.7

(1) Does not include financing for small farmers

Source: National Production Council, Costa Rica Central Bank

the low actual rates in force in the market, during the past two years, made it extremely attractive for farmers to use the credit and made possible a substantial deviation of same toward other activities, very often speculative or encouraging an outflow of foreign exchange.

2.1.2.3 Evolution of credit by products

Of the total credit given to the agricultural/livestock sector up to 1980, the products of agricultural origin received around 60 per cent, and coffee is the individual product that used the largest share of the credit, close to 20 per cent of the total. (Table 2-14).

The breakdown of credit to the sector by products follows a pattern quite similar to the share of the various agricultural/livestock products in the gross production value, with a high share of the traditional export products, coffee and beef.

However, during the last few years, the credit policy has been oriented toward trying to give greater assistance to non-traditional products and to the production of staple cereals, in order to become self-subsistent.

Up to 1981, coffee and beef showed a large share in the overall agricultural/livestock credit, to the extent of almost 50 per cent, whereas in 1981, and even more so in the 1982 credit program, the non-classified items and the staple cereals substantially increase their share, under a policy of food self-sufficiency. Still, export products were not overlooked.

2.1.2.4 Loans and rates of interest

An important element in the credit to the agricultural/livestock sector are the loans stipulating maximum amounts to be

TABLE 2-14

PERCENTAGE BREAKDOWN OF AGRICULTURAL/LIVESTOCK CREDIT BY PRODUCTS

	1976	1977	1978	1979	1980	1981	1982
Agriculture							
1. Coffee	26.0	16.1	16.4	20.6	19.2	22.5	11.0
2. Cacao	0.2	0.3	0.3	0.5	0.7	0.01	0.6
3. Cane	1.1	3.6	1.7	0.8	1.3	2.1	1.9
4. Staple cereals	15.3	16.9	21.7	12.4	18.1	13.5	34.7
5. Non-classified	24.0	22.9	20.1	23.8	20.3	42.1	35.1
Sub-total for agriculture	66.6	59.8	60.2	58.1	59.6	80.2	83.3
Livestock, hunting and fishery	33.4	40.2	39.8	41.9	40.4	19.8	16.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Costa Rica Central Bank

financed per hectare and by products. These amounts are fixed at the beginning of the year and are applicable to the credits that are granted to finance the year's crop.

The variation rates for the loans have not shown a similar behavior for all products. However, they seem to have considered the price increases observed in the period immediately prior to the fixing thereof, but not so the expected increase in the period for which they are prepared. Thus, during the last few years where there is a continuous and substantial increase in prices, the loans in most cases cover increasingly smaller shares of the production cost. (Table 2-15).

As to the rate of interest, after several years of a policy of comparatively abundant credit for agriculture at subsidized rates ranging from 8 to 10 per cent per annum, said policy was changed for the 1981 and 1982 credit programs. (Table 2-16)

Subsidized credit only represents 18.7 per cent of the credit to the sector in the first year, and 10 per cent in 1982, with an interest rate of 12 per cent per annum. The projects that, in 1982, will be financed with subsidized credit are, among others, the reforestation projects, the community, farmer, self-management enterprises, loans to small farmers, the fishery plan and development of rural women.

The other activities will be able to obtain credit at a rate fixed at 3.5 points above the basic passive rate, which at the present time means a rate of 25% per annum.

Even so, the actual rates of interest fixed for the loans by the National Banking System are negative rates

TABLE 2-15

ANNUAL VARIATION RATES OF SUBSIDIZED LOANS PER HECTARE

	1977	1978	1979	1980	1981	1982	ACCUMULATED 1977-1982
Sugar cane	11.19	-	-	13.58	122.59	69.75	355.7
Beans	5.64	-	67.09	-0.33	38.26	112.54	407.3
Corn	18.93	4.93	-	-	26.59	164.60	318.0
Rice	12.19	-12.51	5.15	32.64	69.61	107.65	382.1
Potatoes	10.23	12.16	-	26.79	38.10	n.a.	116.5(1)
Cotton	31.29	6.50	6.15	6.81	183.29	-	345.5
Sorghum	-8.63	14.71	-6.19	34.27	65.71	71.72	275.7
Yucca	-	-	-	-	44.33	95.63	182.4
Soy beans	- (2)	-	-11.66	9.61	153.91	53.13	276.5
Wholesale price index in the previous period	7.23	7.38	9.40	24.04	21.58	82.09	
wholesale price index in the period	7.38	9.40	24.04	21.58	82.09	133.30(3)	

(1) Accumulated 1977-1981

(2) Year in which loans are determined for the first time

(3) Estimated

Source: Costa Rica Central Bank

TABLE 2-16

ACTIVE AND PASSIVE INTEREST RATES

OF THE GOVERNMENT COMMERCIAL BANKS 1/

	1977	1978	1979	1980	1981 2/
I) ACTIVE RATES					
A) OF THE COMMERCIAL DEPARTMENTS					
1. Agriculture, livestock, hunting and fishery	9,27	8,87	9,60	12,47	16,35
2. Industry	9,50	10,00	10,54	14,93	19,55
3. Construction companies and machine and equipment repair shops	9,50	10,00	15,64	21,86	23,83
4. Housing	10,00	12,00	12,82	15,93	23,83
5. Services and tourism	9,60	10,33	15,64	21,86	23,83
6. Electricity and other energy sources	9,00	9,00	15,64	21,86	23,83
7. Government and public institutions	8,00	8,00	15,64	21,86	23,83
8. Personal loans 3/	16,00	16,00	15,64	21,86	23,83
9. Loans intended for financing transfer of agricultural real estate, for operation purposes	--	14,00	--	--	--
10. Commerce and others	16,00	15,33	15,64	21,86	23,83
B) OF FINANCE SECTIONS					
1. Agriculture, livestock, industry, construction companies and housing	13,00	13,00	16,02	22,32	24,02
2. Commerce, personal loans, services and others	20,00	20,00	19,94	24,00	24,02

INTEREST RATES (brought forward)

II) PASSIVE RATES	1977	1978	1979	1980	1981
A) OF THE COMMERCIAL DEPARTMENTS					
1. Savings at sight 4/					
a) In national currency	6,00	6,50	8,00	8,00	8,00
b) In foreign currency	3,00	4,25	8,00	6,00	6,00
2. Time deposits					
a) In foreign currency 5/					
a_1) 1-month 6/	-	-	-	-	16,70
a_2) 2-month 6/	-	-	-	-	16,89
a_3) 3-month	7,55	-	-	14,01	16,88
a_4) 6 months and less than 12 mo.	7,87	9,88	12,24	13,94	17,55
a_5) 12 mo. and less than 24 mo.	8,13	9,88	11,84	13,49	16,44
a_6) 24 mo. and less than 36 mo.	-	9,88	11,19	13.32	16,42
a_7) 36 mo. and over	-	9,88	10,95	13,35	16,40
B) OF THE FINANCE SECTIONS					
1. Time deposits					
a) In national currency					
a_1) 1 month 7/	-	-	-	-	18,50
a_2) 2 months 7/	-	-	-	-	18,50
a_3) 3 months	-	-	-	16,29	17,16
a_4) 6 months and less than 12 mo.	-	10,38	12,93	17,70	19,96
a_5) 12 mo. and less than 24 mo.	10,25	10,38	12,56	16,88	19,96
a_6) 24 mo. and less than 36 mo.	11,25	10,38	12,86	16,06	18,64
a_7) 36 months and over	12,25	10,38	12,86	16,06	18,64

95

NOTES:

1/ Annual averages

2/ Through November 16th

3/ Up to C$5,000 for 1979 and 1980

4/ Deposits in checking accounts to not earn interest

5/ For 1978, covers as of October 2nd

6/ As of March 3rd, 1981

7/ As of Sept. 8th, 1981

since the inflation rate far exceed the market rates of interest.

2.1.2.5 Financing problems

The greatest problem faced when using the credit, is the delay in deciding on the applications, which means that the funds are received late. This bureaucratic problem becomes more critical during times of inflation such as the present time, since any delay in granting the credit could mean that it is insufficient by the time it is used, due to the continual increases in production costs.

At the same time, after the credit application is approved, there are significant delays in the disbursements by the bank, largely due to the controls set up in order to prevent deviations from the purposes for which the credit was granted.

It is therefore important to seek administrative mechanisms that will expedite the handling of the credit, but these mechanisms must not mean giving up the controls on the use of the credit.

2.1.3 External Sector

2.1.3.1 Evolution of exports

Prices of the main export prices for the agricultural/livestock sector continue to be the determining elements for the evolution of the country's trade balance and, mainly, for the variations in exports.

At regular prices, these show two different stages since 1974, as a result of the variations in the prices of coffee and other traditional products. From 1974 through 1977, there is a rapid growth in exports, with variation rates

of more than 20 per cent a year, whereas in later years, the rate of increase was much smaller, with a maximum variation of 8 per cent a year in 1979. (Table 2-17).

The influence of agricultural/livestock products on the volume of overall exports is readily apparent, since they represent more than 60 per cent of the total exports, and their share has dropped in the last few years, they continue to be the fundamental basis for the inflow of foreign exchange into the country. (Table 2-18)

This close dependence of these products on exports is a serious problem, since the fluctuating behavior of international prices makes it impossible to assure a continuous increase in the inflow of foreign exchange.

In regard to non-traditional products, in general, there have been changes in the kind of products exported, but not in the overall value of exports. For example, there is a considerable drop in exports of lumber and dairy products in the last few years, while the exportation of vegetables, flowers and ornamental plants has been increasingly steadily during the same period.

Another important aspect is the small share of processed agricultural/livestock products in the overall exports, which share is even less if the exports of sugar and fresh beef, which are included in the line of agro-industries, are not taken into consideration. In general, the country exports natural products without any kind of processing and the development that has come about in agro-industry has been directed mainly toward domestic consumption, to substitute imports and not for export.

TABLE 2-17

VARIATION RATE FOR AGRICULTURAL/LIVESTOCK AND AGRO-INDUSTRIAL EXPORTS
(percentage)

	1976	1977	1978	1979	1980	1981
Coffee	58.8	107.4	-1.7	0.5	-21.4	-2.9
Bananas	3.2	1.1	13.0	12.1	8.9	19.0
Sugar	-48.7	-36.8	1.9	10.1	132.6	5.9
Cacao	30.2	147.8	-11.7	-35.8	-56.7	-35.7
Staple cereals	-7.4	300.0	-12.0	68.2	7.4	n.a.
Fresh beef	26.2	8.9	36.7	35.5	-13.5	4.7
Fishery	52.9	11.5	24.1	56.9	-18.6	n.a.
Agricultural products	25.8	56.9	3,5	2.4	-9.4	-4.1
Agro-industrial Products	-5.4	19.6	-0.8	33.0	-0.3	39.3
Total for the sector	17.5	48.9	2.7	7.5	-7.5	5.5
Total exports	20.2	39.7	4.4	8.0	7.2	3.4

Source: Our own analysis on the basis of figures of the Costa Rica Central Bank.

TABLE 2-18

EXPORTS BY THE AGRICULTURAL/LIVESTOCK AND AGRO-INDUSTRIAL SECTOR
(millions of dollars)

	1976		1977		1978		1979		1980		1981 (1)	
	VALUE	%	VALUE	%	VALUE	%	VALUE	%	VALUE	%	VALUE	%
Coffee	153.9	25.9	319.2	38.5	313.7	36.4	315.4	33.8	247.9	24.7	240.7	23.2
Bananas	148.7	25.1	150.3	18.1	169.9	19.6	190.5	20.4	207.5	20.7	246.9	23.8
Sugar	24.7	4.2	15.6	1.9	15.9	1.8	17.5	1.9	40.7	4.1	43.1	4.2
Cacao	6.9	1.2	17.1	2.1	15.1	1.7	9.7	1.0	4.2	0.4	2.7	0.3
Staple cereals	2.5	0.4	10.0	1.2	8.8	1.0	14.8	1.6	15.9	1.6	n.a.	
Fresh beef	40.5	6.8	44.1	5.4	60.3	7.0	81.7	8.7	70.7	7.1	74.0	7.1
Fishery (2)	5.2	0.9	5.8	0.7	7.2	0.8	11.3	1.2	9.2	0.9	n.a.	
Other (3)	31.5	5.3	54.1	6.5	42.0	4.9	39.3	4.2	32.9	3.3	56.1(4)	5.4
Agricultural/ livestock sector	325.2	54.8	510.1	61.6	527.7	61.0	540.3	57.8	489.5	48.9	469.2	45.3
Agro-industries	88.7	15.0	106.1	12.8	105.2	12.2	139.9	15.0	139.5	13.9	194.3	18.8
Total sector	413.9	69.8	616.2	74.4	632.9	73.2	680.2	72.8	629.0	62.8	663.5	64.1
Total exports	592.9	100.0	828.2	100.0	864.9	100.0	934.4	100.0	1001.7	100.0	1035.8	100.0

(1) Preliminary
(2) Includes fresh and processed fish and seafood
(3) Includes industrialized agricultural/livestock products
(4) Includes the rest of the agricultural/livestock products

Source: Our own analysis on the basis of figures of the Costa Rica Central Bank.

In the last few years there has been a certain amount of development in the export of non-traditional agricultural/livestock products, and particularly products submitted to a certain amount of processing.

In the light of the above, it is important to remark on a peculiar characteristic that has become evident in the exports of agricultural/livestock products.

With the exception of the main export products (coffee and bananas) agricultural/livestock and agro-industrial production has been developed for the purpose of supplying the domestic market and of substituting imports, and only when there have been production surpluses has export been considered. Therefore, since export is not the goal, no production and control methods have been developed to ensure quality standards required by the most important markets for agricultural/livestock products. In addition, neither the organizations nor the mechanisms suitable for continuous and responsible research have been developed in the country for the purpose of studying the prospects offered by the various world markets, the best way to carry out exports, the competitive situation, prices, etc.

The above has resulted in frequent failures in exporting new products, which represents considerable losses for the country, either as a result of products which are rejected or of foreign exchange which fails to materialize.

Efforts have been made to improve this situation, including the creation, in 1968, of the Center for the Promotion of Exports and Investments, whose functions include the identification of new exportable products, research for opening

up new markets, giving technical assistance to exporters, etc. However, to date the results obtained by the Center have not been satisfactory, as revealed by the preliminary findings of the Export Promotion Survey carried out by the Institute of Economic Research. In said survey, the lack of information on markets appear as one of the most serious problems in order to increase exports. Furthermore, a large number of companies are not aware of the existence of the Center.

At the same time, the State, through the "Costa Rican Development Corporation" (CODESA), a mixed capital corporation, formed a subsidiary (the "Corporation for Costa Rican Agro-industrial Development" (DAISA) which, among other things, acts as exporters of non-traditional agricultural/livestock products such as melons, pineapples, coconuts, "chayotes", ginger and honey.

2.1.3.2 Export markets

The main markets to which Costa Rican agricultural/livestock products are exported are, the United States of America and the member countries of the European Economic Community. For example, in 1980, 78.2 of the beef, 52.7 per cent of the bananas, 25.7 per cent of the coffee and 30.8 per cent of the cacao and all of the sugar produced in the country were sold in the United States.

Exports of the new agricultural/livestock products also wind up in such market. Melons, ginger, chayote and honey are exported to the United States and Canada, while pineapples, and coconuts are also exported to Europe.

Other markets, such as countries in the Arab world, have not been opened mainly due to transportation problems, while the markets of South American countries offer serious limitations due to the existence of regional integration which protect, by means of heavy tax barriers, the productive activities developed in the member countries.

These markets, which do not have such strict quality standards or sanitary controls, could be a more realistic option for the country's exports.

Nevertheless, one important area that must be developed and handled properly in the agricultural/livestock sector is the setting up of stricter quality control and sanitary control measures, in order to eliminate one of the serious problems limiting access into international markets.

It must also be noted that on many occasions, quality standards are used as protectionist barriers in order to impede the entry of products that would compete with domestic production of the countries setting them up. Therefore, less stringent measures could mean a considerable stimulus for agricultural/livestock exports from Costa Rica.

In addition to the problems of the destination of exports and of developing production aimed at export, Costa Rica has serious problems with the transportation of its products, both locally toward export ports and with international transportation, fundamentally because there is no temporal distribution of the load to be transported but rather, the exportation of agricultural/livestock products is concentrated in one part of the

year. For example, there is a shortage of refrigerated transportation, which is essential for exporting perishable products.

Transportation is also a limiting factor for the opening of exports to markets outside the United States and Europe, since, in general, the volume of shipments does not allow the exporter to charter a ship solely for its products, and the shipping lines operating to national ports have, as their destination, the United States or Europe.

One way to solve this problem would be to organize export companies in order to encourage and increase the volume of shipments and thus be in a position to charter ships to operate new routes that will make it possible to export to other markets.

2.1.3.3 Imports for the sector

The agricultural/livestock sector, which generates more than 50% of export foreign exchange, only shares in 5% of the country's overall imports in the purchase of raw materials and capital goods. The annual variation in the value of imports of the sector, in general, has been smaller than the growth rate of overall imports, for which reason its share has decreased during the last few years. (Table 2-19)

Until 1977, imports intended for the agricultural/livestock sector were about equal between raw materials and capital goods. As of that year, most of the imports of the sector have been raw materials, mostly fertilizers and pesticides, while capital goods, particularly in the last two years, show important negative variation rates.

TABLE 2-10

CIF IMPORTS FOR AGRICULTURE
BY ECONOMIC CATEGORIES
(millions of dollars)

	1976 VALUE	1976 %	1977 VALUE	1977 %	1978 VALUE	1978 %	1979 VALUE	1979 %	1980 VALUE	1980 %	1981 VALUE	1981 %
Raw materials	22.8	3.0	29.2	2.9	34.2	2.9	36.0	2.6	50.7	3.3	46.1	3.8
Animal medicines	1.5		2.2		2.4		1.7		2.9		n.a.	
Fertilizers	3.7		7.9		3.7		11.5		8.8		n.a.	
Pesticides	16.5		23.1		25.7		21.1		35.0		n.a.	
Other inputs	1.1		2.0		2.4		1.7		4.0		n.a.	
Capital goods	22.0	2.8	28.4	2.8	27.1	2.3	29.2	2.1	23.5	1.5	13.8	1.1
Machinery	18.7		22.7		22.8		17.2		18.2		n.a.	
Tools	0.9		1.4		1.2		7.4		1.7		n.a.	
Other	2.4		4.3		3.1		4.6		3.5		n.a.	
Total imports by the agricultural/ livestock sector	44.8	5.8	57.6	5.6	61.3	5.2	65.2	4.7	74.2	4.8	59.9	4.9
Total imports	770.4	100.0	1021.4	100.0	1165,7	100.0	1396.8	100.0	1523.8	100.0	1211.2	100.0
Variation rate												
Capital goods	8.9		28.0		17.1		5.3		40.8		-9.1	
Imports for agriculture	11.4		29.1		-4.6		7.7		-19.4		-41.3	
Total imports	10.1		28.6		6.4		6.4		13.8		-19.3	
	11.0		32.6		14.1		19.8		9.1		-20.5	

Source: Our own analysis based on figures supplied by the Bureau of Statistics and Census.

The drop in the purchase of capital goods for the sector, added to an important sale of agricultural machinery exported from the country during the past year, could constitute a serious problem for developing a policy of sustained growth for the sector and in general the production of food.

During the past year there were important sales (legal or otherwise) of agricultural machinery toward Panama, which drastically decreased the availability of harvesters, tractors, graders, etc. In many cases, the sale was made in order to pay off dollar debts that had been incurred for the purchase of that same machinery, but in others, it meant an outflow of capital.

However, even in the former case, the sale of the machinery has harmful effects on the economy as a whole, since it can mean smaller production volume.

While in 1981 there was not a considerable drop in raw material imports for agriculture, the prospects for this year would seem to indicate that the drop will be substantial, which will affect agricultural/livestock yield since there is no domestic availability of suitable substitutes for fertilizers and particularly herbicides, pesticides and veterinary products.

For the economy as a whole, this drop in yield can mean an important loss, since the volumes to be exported will decrease and, therefore, so will the inflow of foreign exchange, while at the same time, when the domestic production of staple cereals, fruit, vegetables, etc., drops, the import of these products should increase, which would mean a greater outflow of foreign exchange.

TABLE 2-20

IMPORTS OF AGRICULTURAL/LIVESTOCK AND AGRO-INDUSTRIAL PRODUCTS
(millions of dollars)

	1976		1977		1978		1979		1980		1981	
	VALUE	%	VALUE	%	VALUE	%	VALUE	%	VALUE	%	VALUE	%
1. Agriculture and hunting	30.5	4.0	30.6	3.0	30.6	2.6	37.5	2.7	63.3	4.2	n.a.	
2. Fishery	0.3	0.03	0.7	0.1	0.8	0.1	1.6	0.1	2.2	0.1	n.a.	
3. Forestry and timber	0.6	0.07	0.8	0.1	1.3	0.1	1.7	0.1	1.7	0.1	n.a.	
4. Total agricultural/livestock sector	31.4	4.1	32.1	3.2	32.7	2.8	40.8	2.9	67.2	4.4	63.5	5.3
5. Food items, beverages and tobacco	34.3	4.4	46.8	4.5	51.6	4.4	58.8	4.2	67.6	4.4	62.1	5.1
6. Total agricultural and agro-industrial imports	65.7	8.5	78.9	7.7	84.3	7.2	99.6	7.1	134.8	8.8	125.6	10.4
7. Total imports	770.4	100.0	1021.4	100.0	1165.7	100.0	1396.8	100.0	1523.8	100.0	1211.2	100.0
Variation rates												
1.	-21.4		0.3		-		22.5		68.8		n.a.	
2.	-		133.3		14.3		100.0		37.5		n.a.	
3.	-		33.3		62.5		30.8		-		n.a.	
4.	-20.8		2.3		1.7		24.9		64.7		-5.6	
5.	22.5		36.4		10.3		14.0		15.0		-8.1	
6.	-3.0		20.1		6.8		18.1		35.3		-6.8	
7	11.0		32.6		14.1		19.8		9.1		-20.5	

Source: Our own analysis based on figures of the Costa Rica Central Bank

However, from the individual point of view, the drop in the use of imported inputs and the drop in yield per hectare does not necessarily mean a reduction in profitability, since the drop in costs could be greater than the drop in the revenue per hectare.

2.1.3.4 Food trade balance

In regard to the food trade balance, the country shows an important favorable balance in value, since the amount of imports of agricultural/livestock and agro-industrial products are about 15 per cent of the total exports of the same kind of products. Until 1980, the trade balance of agricultural/livestock products showed annual variation rates that were always positive, but in 1980, due to a reduction in exports by the sector and a considerable increase in the imports of these products, while the trade balance continues to be positive, it has decreased (Table 2-20).

It is important to analize the make-up of these imports of food. Staple cereals constitute more than 30 per cent of same and dairy products close to 7 per cent. (Table 2-21)

The country imports agricultural/livestock products which are fundamental to Costa Ricans' diet, such as beans, corn, wheat and dairy products, while agricultural/livestock export products do not have the same importance in the diet of the people of the importing countries.

2.1.4 Demand by agricultural/livestock products

From 1976 through 1980, the apparent per capita consumption of the main items for domestic consumption shows a be-

havior that is quite stable. The staple cereals, which are essential to the Costa Ricans' diet, are what shows the greatest variations, since consumption dropped during the middle years of this period and recover beginning in 1980. (Table 2-21)

At the same time, if we consider the evolution of the total food available for domestic consumption, it is evident that when domestic production grows at lower variation rates, the increase in exports by the sector is achieved by reducing the annual variation of the apparent consumption. (Table 2-23)

For the 1977-1979 period, the variation rate shows negative values and this, combined with population growth, results in the per capita consumption dropping in those years.

The subsequent recovery (1979-1981) of the variation rates in apparent consumption was achieved thanks to a considerable increase in imports in 1980 and to decreases in the growth of exports, mainly in 1981, inasmuch as during that period, domestic production decreases.

The economic crisis through which the country is going since 1980 has meant that in order to achieve a substantial increase in domestic consumption it has been necessary to sacrifice, to a large extent, the export of food items.

For the purposes of this analysis it was assumed that the domestic output of the agricultural/livestock sector was the one from which was taken the production intended for processing export food products, so there are only included the agricultural/livestock products that remain available for do-

TABLE 2-21

FOOD IMPORTS
(millions of dollars)

	1976		1977		1978		1979		1980	
	VALUE	%	VALUE	%	VALUE	%	VALUE	%	VALUE	%
-Wheat	14.1	21.5	13.6	17.2	13.9	16.5	17.6	17.7	25.2	18
-Staple cereals	4.2	6.4	1.5	1.9	4.0	4.7	7.1	7.1	17.3	12
-Other agricultural products	35.0	53.2	44.7	56.7	50.2	59.6	55.2	55.4	72.9	54
-Dairy products	3.3	5.0	8.4	10.7	6.5	7.7	8.5	8.5	9.0	0
-Other livestock products	8.0	12.2	9.1	11.5	8.0	9.5	8.8	8.9	7.3	5.
-Fishery	0.3	0.5	0.7	0.9	0.7	0.8	1.6	1.6	2.2	1.
-Forestry	0.8	1.2	0.9	1.1	0.1	1.2	0.8	0.8	0.9	0.
-Total agricultural/ livestock imports	65.7	100.0	78.9	100.0	84.3	100.0	99.6	100.0	134.8	100

Source: SEPSA and Bureau of Statistics and Census.

TABLE 2-22

APPARENT PER CAPITA CONSUMPTION OF SOME AGRICULTURAL/LIVESTOCK PRODUCTS
(kilograms/inhabitant)

Product	1976	1977	1978	1979	1980	1981
-coffee	7.0	7.7	5.7	0.5	16.2	7.8
-bananas	58.9	59.1	59.2	60.0	59.5	61.0
-sugar	53.4	55.5	57.0	57.1	57.3	56.1
-cacao	0.8	1.0	2.2	2.8	1.4	1.2
-rice	51.2	35.3	44.2	39.5	51.3	n.a.
-corn	58.8	40.6	32.3	35.5	61.3	n.a.
-beans	6.1	6.9	6.7	7.6	10.9	n.a.
-sorghum	26.4	21.1	33.5	27.8	25.8	n.a.
-tobacco	1.6	1.4	1.2	1.1	0.8	n.a.
-potatoes	12.3	12.3	12.3	12.6	12.2	n.a.
-yucca	6.7	6.8	6.5	6.7	8.2	7.5
-plantains	28.7	28.7	28.4	28.9	31.0	n.a.
-onions	1.8	1.8	1.7	1.8	1.9	n.a.
-beef	25.9	27.1	30.0	28.5	25.5	30.2
-pork	5.8	6.2	7.2	9.3	9.1	n.a.
-poultry	2.3	2.1	1.9	1.9	2.1	n.a.
-milk (liters)	135.0	140.8	142.5	141.6	139.3	139.9
-eggs (units)	178.7	179.0	178.3	180.0	180.1	n.a.
-fish	5.9	6.0	8.8	9.4	7.1	n.a.

Source: Our own analysis based on figures of the Costa Rica Central Bank

TABLE 2-23

VARIATION IN APPARENT FOOD CONSUMPTION
EXCLUDING COFFEE, BANANAS AND CACAO

	1975-1976	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981
-Agricultural production	6.0	4.5	3.6	2.4	-2.2	-0.1
-Exports	-7.2	18.1	26.3	18.9	11.7	-17.7
-Imports	-2.9	20.2	6.7	18.1	35.4	-6.9
-Apparent consumption	10.0	4.4	-9.1	-3.2	12.7	12.4

Source: Our own analysis based on data of the Costa Rican Central Bank

mestic consumption. Furthermore, there were added the imports of agricultural/livestock products, both processed and without processing, in order to cover all of the food items that make up domestic supply.

2.1.5 Prices

2.1.5.1 International Prices

The fluctuation of international prices for export products is one of the fundamental variables to explain the evolution of the sector, since these products constitute more than 50 per cent of the value of agricultural/livestock production. Coffee prices are the ones most subject to variation in world markets, which makes the trade balance situation of the country most serious, since exports of this product constitute more than 20% of the total exports. (Table 2-24)

With the exception of bananas, which have maintained positive variation rates, albeit decreasing in the past two years, the other products show varying variations. Coffee, after reaching high prices in 1976 and 1977, started to decline, and in 1981 it showed the lowest prices in the past five years. However, at the beginning of this year there was a slow recovery that has upped prices to 1980 levels.

For its part, sugar, which had a record quotation in 1980, dropped sharply and at the beginning of this year, it was quoted at 0.28 dollars per kilogram, that is, less than half of the quotation for the year with the highest price.

The price of cacao, which at the beginning of 1982 showed an important recovery as against the previous

TABLE 2-24

EVOLUTION OF INTERNATIONAL PRICES OF EXPORT PRODUCTS

($/Kilo)

Products	1975	1976	1977	1978	1979	1980	1981	1982*
-coffee (1)								
amount	1.42	3.10	5.10	3.54	3.77	3.35	2.73	3.34
variation rate	-0.7	115.0	64.5	-30.6	6.5	-11.1	-18.5	22.3
-bananas (1)								
amount	0.34	0.34	0.36	0.39	0.45	0.52	0.56	0.56
variation rate	25.9	-	5.9	8.3	15.4	15.6	7.7	3.6
-sugar (1)								
amount	0.49	0.29	0.24	0.27	0.36	0.65	0.51	0.28
variation rate	-23.4	-40.8	-17.2	12.5	33.3	80.6	-21.5	-45.1
-cacao (1)								
amount	1.25	2.11	3.94	3.37	3.09	2.58	1.35	1.90
variation rate	-24.7	68.8	86.7	-14.5	-8.3	-16.5	-47.7	40.7
-beef (2)								
amount	1.30	1.54	1.50	2.09	2.83	2.73	2.52	2.36
variation rate	-17.2	18.5	-2.6	39.3	35.4	-3.9	-7.4	-6.3

(1) Quotations on the New York market
(2) Quotations on the Chicago market
* As at February 28th

Source: Costa Rica Central Bank

year, is still far from reaching the top price of 1977, when it reached 3.94 dollars per kilogram.

Lastly, as regards beef, during the past few years quotations have shown a downward trend. However, they have not dropped as drastically as in the case of other products.

2.1.5.2 Domestic prices

World prices of export goods also influence domestic prices paid to the agricultural/livestock farmer, since the final settlement of the crop, made with the producers of these goods often takes into consideration this quotation. This is the case with coffee, sugar and cacao. (Table 2-25 and 2-26). As regards the first of these products, the fluctuation in world prices is reflected to a larger extent, since most of the production is intended for export.

In regard to export products for which there is high domestic consumption, such as sugar, the low domestic prices mean that in spite of the high revenues in colones originating in exports, as a result of devaluation, the increase in the final price to the producer does not show important variation rates.

As regards domestic consumption products whose prices are regulated, such as staple cereals, there has been a constant increase in prices to the farmer, with high variation rates, particularly during the past two years, and what is more, support prices fixed for the 1981-1982 crop contain increases of more than 50 per cent in rice and more than 75 per cent in the other cereals.

TABLE 2-25

AVERAGE PRICES PAID TO THE AGRICULTURAL/LIVESTOCK FARMER

PRODUCTS	UNIT	1976-1977	1977-1978	1978-1979	1979-1980	1980-1981
Agricultural						
Coffee berries	₡/MT	4860	3814	3001	3810	n.a.
Bananas (1)	₡/MT	126	131	150	178	184
Sugar cane	₡/MT	119	127	133	182	205
Cacao (1)	₡/MT	26358	22948	20993	19341	n.a.
Threshed rice(2)	₡/MT	1698	1793	1868	2054	3041
Corn (2)	₡/MT	1577	1603	1783	2032	2687
Beans (2)	₡/MT	4891	4891	4891	5543	8436
Sorghum (2)	₡/MT	1304	1304	1413	1717	2081
Cotton fiber (2)	₡/MT	8726	9438	13047	22826	33800
Tobacco	₡/MT	11361	12115	13400	16510	18410
Livestock (1)						
Cattle (3)	₡/Kg.	4.40	5.25	7.19	8.55	9.65
Pork	₡/Kg.	9.39	10.07	10.91	14.18	17.21
Poultry	₡/Kg.	n.a.	7.50	12.00	17.00	18.02
Milk	bottle	1.45	1.67	1.67	2.32	2.90
Eggs	dozen	n.a.	6.60	7.20	12.00	17.10

(1) Calendar year
(2) Supported price
(3) Price on the hoof at Montecillos market

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning

TABLE 2-26

VARIATION IN AVERAGE PRICES PAID TO THE FARMER BY AGRICULTURAL ITEM

	1977-1978	1978-1979	1979-1980	1980-1981
-coffee berries	-21.5	-21.3	26.9	n.a.
-bananas	4.0	14.5	18.7	3.4
-sugar cane	6.7	4.7	36.8	12.6
-cacao	-12.9	-8.5	-7.9	n.a.
-threshed rice	5.6	4.2	10.0	48.1
-corn	1.6	11.2	14.0	32.2
-beans	-	-	13.3	52.2
-sorghum	-	8.4	21.5	21.2
-cotton fiber	8.2	38.2	75.0	48.1
-tobacco	6.6	10.6	23.2	11.5
-cattle	19.5	36.7	18.9	12.9
-hogs	7.2	8.3	30.0	21.4
-poultry	n.a.	60.0	41.7	6.0
-milk	15.2	-	38.9	25.0
-eggs	n.a.	9.1	66.7	42.5

Source: Our own analysis, based on figures of Table 2-25

The prices of livestock-related products have shown the same trend as agriculture-related products, with strong increases beginning in 1979.

For the other agricultural/livestock products, no statistical data on prices paid to the farmer are kept, and wholesale prices do not really reflect the revenues earned by the farmer due to the existence of an important process of intermediary activities in this kind of products.

In spite of the substancial increase in domestic prices, largely in staple cereals, they are much lower than in the rest of the countries in the area. This prompted, toward the end of 1981 and beginning of 1982, a smuggling of staple cereals and sugar, among other products. The main destination of this smuggling was Panama. This reduced domestic supply.

Furthermore, there is a considerable differencial between the domestic price and the export price in the case of rice, beef, sugar and coffee. Thus, it may be stated that the high revenues obtained as a result of devaluation have made it possible to subsidize the domestic consumption of these products.

For example, in November 1981, the FOB value of a ton of rice was 487.03 dollars, which, at the average exchange rate for the month (37.04 colones per dollar) meant 18 thousand colones, whereas the domestic wholesale price was only 8.6 thousand colones.

Sugar was quoted, in October, 1981, at 13.1 colones per kilogram on international markets, while the domestic price to the consumer was 6.8.

At the same time, as at December, 1981, the staple cereals imported had the following CIF Puntarenas prices: white corn, 140.6 dollars per ton; yellow corn, 139.6 dollars per ton; sorghum, 145.4 dollars per ton; beans, 508.2 dollars and wheat, 204.4 dollars per ton.

The average rate of exchange as at December, 1981, was 37.74 colones per dollar, which means prices of 5,300, 5,300, 5,500, 19,200 and 7,900 colones per ton, respectively.

However, the National Production Council in many cases received dollars at a lower exchange rate than the open-market rate, which meant lower prices than the above mentioned. Therefore, the support prices that the Council fixes for staple cereals, while they increased considerably in the past year, are much lower than import prices. It must also be borne in mind that in fixing this price, there are taken into account domestic production costs, which are lower than import costs.

2.1.5.3 Price policy

In general, it may be stated that the sector has adopted a different price policy for each kind of products involved.

For export products, prices are fixed for domestic consumption. Through lower prices than world prices, the domestic consumption of these products has been subsidized.

As regards sugar and coffee, prices to growers are calculated through a method defined by law, which contemplates net revenue for exports and for domestic sales, and percentages are set for the grower and the miller.

In the case of beef for domestic consumption, prices may be set freely, except for certain cuts which are deemed to be intended for the people with lower incomes.

A second category of products are those that are regulated, and where a support price is fixed. This method operates mainly in staple cereals, and the National Production Council undertakes to buy the production thereof at that price. During the past few years, this price has been applied to the part of the crop whose quality is lower inasmuch as after two years of considerable participation of the Council in the purchases of staple cereals, it has diminished substantially. The growers, in some cases such as rice, have sold their crop to the processing industries, which pay better prices than the Council; in other cases such as beans, it has been smuggled out of the country, either directly or through intermediaries who can offer high prices, due to the differencial existing between the price in Costa Rica and the price in the other countries in the area.

Lastly, there is a third category of products whose price is set freely or the price to the consumer is regulated.

In this case, the farmers can negotiate the products directly at the wholesale market or in the so-called "farmers' fairs", or as often happens, sell them to go-betweens, who usually fix the price.

2.1.5.4 Prices of imported inputs

The devaluation process, at the same time that it benefits the exporting agricultural/livestock sector with a

windfall income, it constitutes an important increase in production costs, particularly in those crops where the imported component is very high, that is, where a large amount of fertilizers, pesticides, seed are required and where irrigation and harvesting require mechanization.

According to information by the Chamber of Merchants of Agricultural/Livestock Inputs, the local cost of imported inputs has increased close to 600 per cent, while the domestic inputs have increased 186.7 per cent in the same period. If we consider that in agricultural/livestock production more than 30 per cent of the cost is imported imputs, the overall production cost would have increased around 310 per cent in the period.

For its part, domestic wholesale prices of animal-related food items have only gone up by 233.4 per cent, and plant-related items have gone up 179.8 per cent.

This differencial has led to a considerable reduction in the purchase of imported agricultural/livestock inputs, beginning in 1981, which reduction has become worse as of the beginning of 1982. There has also been a drop in the use of concentrates for animal feeding.

The consequence of this has been the substitution of these inputs for other procedures such as weed burning, weed control by hand, etc.; which has resulted in lower yields per hectare, but a considerable drop in production costs. In this way, it is assumed that the farmer can still make a profit.

This situation has greater importance in the products for domestic consumption that have not benefited from the devaluation, and whose domestic price has not been adjusted

to the cost increases. On the other hand, in the case of export products, notwithstanding the increased costs, there is an incentive to improve yield which is offered by greater income. This is the case with coffee, one of the few products where there has been an increase in yield per hectare during the past two years, as a result of a more technical cultivation, including greater use of agricultural chemicals.

.6 Marketing

There are two types of well-defined marketing in the country: the marketing of products for export and the marketing of products for domestic consumption.

In the first case there are, in turn, different ways for carrying out the process. For example, in the case of sugar, there is an institution -- the Agricultural and Industrial Association for Sugar Cane -- which monopolizes the marketing of this product both what is exported and what is intended for the domestic consumption. This organization has a storage area, a port of shipment (Punta Morales on the Pacific Ocean) and trained professional and technical personnel.

In other export products, marketing is done by private concerns and in very exceptional cases, by the farmers themselves. In coffee, the principal exporters are German or North American who know the business very well and who have close relations with importers in their country of origin, since Germany and the United States are the principal buyers of Costa Rican coffee.

Banana exports are handled by trans-national companies which, in turn, are the largest growers of the fruit in Costa Rica.

For their part, cattle exports are mainly handled by a breeders' cooperative ("Coopemontecillos") and a few private packers. In the case of other products of the sector which are exported, the marketing is also in the hands of private exporting companies, since it is hard for a farmer, due to his production volume, to handle the exportation himself.

During the past few years, the Costa Rica Development Corporation (CODESA) organized a subsidiary, the Corporation for Agro-Industrial Development (DAISA) one of whose functions is the marketing abroad of a number of non-traditional agricultural products.

As to the domestic market, one of the main features of same is the concentration of this activity in San José and neighboring towns due, among other things, to the high percentage of people in the higher-income brackets, and therefore with greater purchasing power, who live in urban centers.

Another important characteristic of the domestic agricultural/livestock marketing system is the prevalence of the combined gatherer-trucker who serves as a link between the farmer and the detailer, and not between the farmer and the wholesaler, as is customary in other countries. The wholesale market in Costa Rica in general is a market made up of trucks that are used both as means of transportation and places for commercial display. In general, this feature is due to the fact that the environment of trade in perishables has not offered suitable conditions to stimulate more and better services at the wholesale level.

Until the inauguration of the National Food Supply and Distribution Center (CENADA) in Heredia, there were

no suitable stores for selling, or warehouses, in the main marketing centers (Borbón Market and 10th Avenue Market) and furthermore any possible expansion was seriously limited by the physical facilities at such centers.

At CENADA, small wholesalers can easily locate themselves in the open warehouse of this market. In turn, the wholesalers who might be called large, comparatively speaking, and who deal in semi-perishable products (garlic, potatoes, onions, watermelons and plantains) have been installed in locations inside the warehouses of CENADA and have invested their own money in fixing up the place.

However, there is still a serious problem with the small wholesaler in fruits, for whom the closed warehouses provided for fruits do not offer either a commercial appeal or the space/rate ratio that will facilitate their operation and therefore this does not operate in CENADA.

The concentration made possible by CENADA can bring about, over a short term, benefits such as increases in the selection of the products, better classification, hygienic conditions and appropriate sanitation.

CENADA, when it develops a program for refrigerated chambers, will offer an important service to exporters of perishable agricultural/livestock products.

An important project that has been developed in the past few years has been the so-called "farmers' fairs" which are located in different cities in the country. These fairs have helped considerably the marketing process. The main objective

of these fairs has been to eliminate or reduce to a large extent an unnecessary series of go-betweens that participate in this process and thus push up the price of the product to the consumer. The object is to set up direct contact between farmers and consumers so that the price is fixed through the free action of supply and demand.

Another of its objectives to be achieved over the medium range is that farmers will organize in such a way that they can have the necessary transportation to take their produce to the place for gathering same.

The organization of these fairs is the responsibility of the Ministry of Agriculture and Livestock, which carries out feasibility studies and issues the permits for the farmers to set up at the fairs. Through the Canton Agricultural Centers and other associations, the Ministry handles the internal administration of each fair.

2.1.7 Employment and wages

2.1.7.1 Employment

Employment in the agricultural/livestock sector has been losing importance, comparatively speaking. In 1976, this sector employed 34.6 per cent of the overall working population, while in 1981, this percentage was only 27.7 per cent. This drop is due to the fact that the agricultural/livestock sector, as a generator of employment, has had a different behavior from that of the economy as a whole, since it has had negative variation rates even before the beginning of the present crisis in the

country. What is more, from July, 1978 to July, 1981, the sector has released 16,300 workers. (Tables 2-27 and 2-28)

This drop in employment levels happens at a time when there are decreasing variation rates in the product generated by the sector. However, during the last six months of 1981, the agricultural/livestock sector became the most dynamic sector as regards the generation of new jobs, since it absorbed 90 per cent of the increase in working population. One of the causes of this dynamism is the substantial increase contributed by the coffee harvest, one of the largest in the country's history, as well as a greater demand for labor to carry out tasks that had been done by machine, or tasks that had been replaced by chemicals. This return to less technical production methods, as stated before, is the result of the large increase in the prices of fuel and imported agricultural/livestock inputs.

This trend continues in the first quarter of 1982. The growth in employment in the sector shows higher rates than for the economy as a whole.

The percentage of wage-earning population in the working population of the agricultural/livestock sector is smaller than the percentages observed in the totality of the productive sectors; this means that family labor plays an important role in the sector's employment. However, during the past few years, there has been an increase in the wage-earning population in this sector, even in those periods where the sector released workers.

TABLE 2-27

EMPLOYMENT IN THE AGRICULTURAL/LIVESTOCK SECTOR

	1976	1977	1978	1979	1980	1981	1982
1. Overall employed population							
-March	-	636753	675553	697556	722398	719662	746492
-July	619477	658978	696010	718809	724708	726227	-
-November	685505	716361	767059	760680	767120	808763	-
2. Population employed by the sector							
-March	-	214671	217786	208642	200482	199083	220895
-July	214182	216406	210711	205341	198857	200153	-
-November	264426	253972	264579	249129	239251	274473	-
3. Wage-earning Population							
-March	-	455942	492441	517310	529292	535137	554948
-July	450045	476714	508982	523361	546116	545574	-
-November	496851	526230	574181	568900	582635	606708	-
4. Wage-earning Population of the sector							
-March	-	116546	123449	119688	116255	120941	138837
-July	119047	122471	122905	117626	123311	127961	-
-November	162682	157153	174827	162484	159110	185424	-
Relative figures (3/1)							
-March	-	71.6	72.9	74.2	73.3	74.3	74.3
-July	72.7	72.4	73.1	72.8	75.4	73.7	-
-November	72.5	73.5	74.8	74.8	75.9	75.0	-
(4/2)							
-March	-	54.4	56.7	57.4	58.0	60.7	62.8
-July	55.6	56.6	58.3	57.3	62.0	63.9	-
-November	61.5	61.9	66.1	65.2	66.5	67.6	-
(2/1)							
-March	-	33.7	32.2	29.9	27.8	27.7	29.6
-July	34.6	32.8	30.3	28.6	27.5	27.7	-
-November	38.6	35.5	30.5	32.7	31.2	33.9	-
(4/3)							
-March	-	25.6	25.1	23.1	21.9	22.6	25.
-July	26.5	25.7	24.2	22.5	22.6	23.5	-
-November	32.8	29.9	28.4	28.6	27.3	30.6	-

Source: Our own analysis based on data from the Ministry of Labor

TABLE 2-28

EMPLOYMENT GROWTH RATE IN THE AGRICULTURAL/LIVESTOCK SECTOR

	1977	1978	1979	1980	1981	1982
-Working population						
-March	-	6.09	3.26	3.57	-0.37	3.73
-July	6.36	5.62	3.28	0.82	0.21	
-November	4.51	7.08	-0.83	0.85	5.43	
-Working population of the sector						
-March	-	1.46	-4.19	-3.91	-0.69	10.96
-July	1.04	-2.63	-2.54	-3.15	0.66	
-November	-3.95	4.28	-5.83	-3.97	14.72	
-Wage-earning population						
-March	-	8.01	5.05	2.32	1.11	3.70
-July	5.93	6.77	2.83	4.35	-0.10	
-November	5.92	9.11	-0.92	2.42	4.14	
-Wage-earning population of the sector						
-March	-	5.93	-3.04	-2.87	4.03	14.80
-July	2.88	0.35	-4.30	4.84	3.77	
-November	-3.40	11.25	-7.06	-2.08	16.54	

Source: Our own analysis based on data of the Ministry of Labor

One of the explanations of this fact lies in the process toward the concentration of lands that has been evident during the past few years, which results in many small farmers selling their lands and becoming wage earners.

For example, in 1980 the sector released 6,484 workers but still, the number of wage earners increased by 5,685. In 1981, 4,650 new wage earners were added to the sector, while the absorption of labor was only 1,296 new working people.

2.1.7.2 Wages

The agricultural/livestock activity is the one that has the lowest wages in Costa Rica. The average monthly wages of the sector is lower than the average general salaries by almost 40 per cent, and this figure in reality can be even greater if we take into consideration that the working shifts are, as a rule, longer in this activity than in the other economic sectors. (Table 2-29)

Generally speaking, agricultural/livestock wages show a sustained growth during the past few years, of 16 per cent a year. However, in real terms the growth was less: from 1976 to 1979, they increased 10.4 per cent a year and beginning this year they show negative variations as a result of the inflationary process. Real wages of the agricultural sector (deflated by the index of prices to the low- and medium-income consumer in the metropolitan area) show a greater drop than the average national wages both in 1980, where they amount to -4.0 per cent, and in 1981, where the drop is 16.0 per cent (Table 2-30)

TABLE 2-29

NOMINAL* AVERAGE WAGES OF WAGE-EARNING, EMPLOYED POPULATION

BY KIND OF ACTIVITY

-colones in nominal terms per month-

YEAR	TOTAL	KIND OF ACTIVITY					
		AGRICULTURE	INDUSTRY	CONSTRUCTION	BASIC SERVICES	COMMERCE	OTHER SERVICES
1976	1116.35	656.4	1097.12	1230.6	1535.45	1243.0	1456.0
1977	1292.6	803.0	1249.3	1277.20	1704.8	1445.20	1644.0
1978	1487.20	869.30	1476.20	1471.0	1876.8	1646.40	1929.90
1979	1757.0	1064.35	1672.40	1762.70	2315.20	1905.15	2220.80
1980	2009.6	1207.90	1880.0	2022.5	2444.4	2242.80	2539.80
1981	2329.0	1388.43	2349.1	2344.25	2975.50	2518.00	2942.80

*Weighted average of the findings of the National Survey of Homes, Employment and Unemployment

SOURCE: Ministry of Labor. National Survey of Homes and Unemployment.

TABLE 2-30

REAL AVERAGE WAGES AND ANNUAL GROWTH RATE
OF WAGE-EARNING, EMPLOYED POPULATION BY KIND OF ACTIVITY*

-Constant 1976 Colones-

YEAR	TOTAL	AGRICULTURE	INDUSTRY	CONSTRUCTION	BASIC SERVICES	COMMERCE	OTHER SERVICES
				KIND OF ACTIVITY			
1976	1116.35	656.4	1097.12	1230.60	1535.40	1243.40	1456.0
1977	1241.70 (11.2)	771.4 (17.5)	1200.10 (9.4)	1226.90 (0.30)	1637.70 (6.7)	1388.3 (11.7)	1579.25 (8.5)
1978	1347.10 (8,5)	787.40 (2.0)	1337.15 (11.4)	1332.40 (8.6)	1700.00 (3.8)	1491.30 (7.4)	1748.10 (10.7)
1979	1458.10 (8.2)	883.20 (12.2)	1387.90 (3.80)	1462.80 (9.8)	1921.30 (13.02)	1581.0 (6.01)	1843.0 (5.4)
1980	1411.20 (-3.2)	848.20 (-4.0)	1320.20 (-4.9)	1420.30 (-2.91)	1716.60 (-10.7)	1575.0 (-0.4)	1783.60 (-3.2)
1981	1194.40 (-15.4)	712.0 (-16.0)	1204.7 (-8.7)	1202.20 (-15.4)	1525.90 (11.1)	1291.30 (-18)	1509.10 (-15.4)

*Deflated with the retail price index in the Metropolitan Area, for the medium- and low-income consumer. 1976 base=100.

SOURCE: Ministry of Labor and Social Security. National Survey of Homes, Employment and Unemployment.

However, country people have easier access, and at lower prices, to food produced by the sector, and the possibility of planting their own crops for their own use, all of which is not contemplated in other figures. Therefore, if this could be reflected in the above figures, the drop in purchasing power of agricultural wages would not be so drastic.

2.1.8 Investment in the sector

Due to the fact that figures on investment have not been updated, the available information only covers the evolution of this variable until 1979.

2.1.8.1 Evolution of investment

The share of the agricultural/livestock sector in the country's overall gross investment is very low and does not exceed 10 per cent. (Table 2-31)

In 1976 and 1977, when the overall investment had positive growth rates above 30 per cent a year, investment in the agricultural/livestock sector, in regular terms, had negative growth rates. In 1978 it recovered as a result of the high revenues obtained with coffee exports in the preceding year, and when it grew at higher rates than those of the overall investment, its share in such investment increased.

In constant terms (Table 2-32) we can see that the new construction was what brought about the rapid increase in investment in 1978 and 1979, since the investment in machinery and equipment showed low rates and even negative variation rates.

Another important element to be considered is that in 1977, the substancial drop in investment was due to a very

TABLE 2-31

TOTAL AND AGRICULTURAL/LIVESTOCK GROSS INVESTMENT
-millions of non-devaluated colones-

	1976	1977	1978	1979
Total gross investment	4892.3	6390.4	7083.9	8754.7
Gross investment - agricultural/livestock sector	283.7	275.9	450.0	669.6
-New construction	25.0	36.3	68.4	310.9
-Machinery and equipment	249.5	354.8	379.1	354.5
-Variation in inventories	9.3	-115.2	2.5	4.2
Growth rates				
Total gross investment	34.5	30.6	10.8	23.6
Agricultural/livestock gross investment	-16.9	-2.7	63.1	48.8
Relative figures				
Total gross investment	100.0	100.0	100.0	100.0
Agricultural/livestock gross investment	5.8	4.3	6.4	7.6

Source: Our own analysis based on figures of the Costa Rica Central Bank

TABLE 2-32

GROSS INVESTMENT OF THE AGRICULTURAL/LIVESTOCK SECTOR
-millions of constant 1976 colones*-

	1976	1977	1978	1979
Agricultural/livestock gross investment	283.7	249.6	399.3	495.1
New construction	25.0	34.1	58.7	217.4
Machinery and equipment	249.5	322.8	338.5	274.8
Inventory variation	9.3	-107.3	2.1	2.9
Variation rates				
Agricultural/livestock gross investment		-12.0	60.0	24.0
New construction		26.4	72.1	270.3
Machinery and equipment		29.4	4.9	-18.8

* Deflated by the implicit deflators in the gross formation of capital

Source: Our own analysis based on data by the Costa Rica Central Bank

marked decrease in inventories. Good coffee prices brought about the placement of inventories in international markets.

As to the origin of investment in the agricultural/livestock sector, there is a large share of foreign investment, particularly in the first two years (1976, 1977), which then tapers off as a result of negative variation rates in same, as against positive rates in overall investment. (Tables 2-33 and 2-34)

It is interesting to note that the agricultural sector is the productive sector with the largest participation of foreign investment. This is mainly due to the presence of transnational companies which handle almost all of the banana plantations, which are the largest contributors to the agricultural/livestock gross production value. Furthermore, foreign companies have started to operate in lines other than bananas, such as oil palms, from which is extracted a large part of the oil consumed in the country; and agricultural products intended for export, such as pineapples, pejibaye centers, etc.

Local investment increased its share in overall investment during the past few years as a result of a strong public investment in the sector in developing large-scale agro-industrial projects such as the Tempisque Sugar Processing Plant in 1977 and 1978.

If we analyze the financing of the local investment it is apparent that new investment by the National Banking System in investment projects (Table 2-35), in 1976 and 1977 is five times as large as investment in the period. This is due to the fact that in some products, the credit granted for making new

TABLE 2-33

GROSS INVESTMENT BY ORIGIN
-millions of non-devaluated colones-

	1976	1977	1978	1979
1. Total gross investment	4892.3	6390.4	7083.9	8754.7
2. Total foreign investment	531.3	540.8	417.4	372.8
3. Gross agricultural/ livestock investment	283.7	275.9	450.0	669.6
4. Foreign investment in agriculture	144.8	126.0	46.3	135.4
Relative figures				
2/1	10.5	8.5	5.9	4.2
4/3	51.0	45.7	10.2	20.2
3/1	5.8	4.3	6.4	7.6
4/2	27.3	23.3	11.1	36.3

Source: Costa Rica Central Bank, National Accounts

TABLE 2-34

GROSS AGRICULTURAL/LIVESTOCK INVESTMENT BY ORIGIN
(millions of constant colones*)

	1976	1977	1978	1979
Total investment	283.7	249.6	399.7	495.1
Foreign investment	144.8	115.7	39.2	100.9
National investment	138.9	133.9	360.1	394.2
Share				
Total investment	100.0	100.0	100.0	100.0
Foreign investment	51.0	46.4	9.8	20.4
National investment	49.0	53.6	90.2	79.6
Variation rates				
Total investment		-12.0	60.0	24.0
Foreign investment		-20.1	-66.1	157.4
National investment		-3.6	168.9	9.5

* Deflated by the implicit deflators of the gross formation of capital.

Source: Costa Rica Central Bank. National Accounts.

TABLE 2-35

GROSS INVESTMENT AND EFFECTIVE INVESTMENTS
IN THE AGRICULTURAL/LIVESTOCK SECTOR
(in millions of colones)

	1976	1977	1978	1979
Total investment	283.7	275.9	450.0	669.6
Foreign investment	144.8	126.0	46.3	135.4
National investment	138.9	149.9	403.7	534.2
Effective investment	715.2	853.3	989.9	1127.4
Financing of overall investment (%)	152.1	209.3	120.0	68.4
Financing of national investment (%)	414.9	469.2	145.2	111.0

Source: Our own analysis based on figures of the Costa Rica Central Bank

plantings is considered investment credit. This is the case with sugar cane, the plantations of which increased considerably by new areas planted in those years, as a result of the building of the Tempisque Sugar Processing Plant in Guanacaste, and of a new mill in San Isidro de El General.

However, even in subsequent years, new investment loans double local investment in the sector. These figures could be indicative of an important problem of diverting credit to ends other than investment. Unfortunately, there are no present investment figures with which to analyze the situation during the past two years, where the actual, negative rates of interest that have been applied in the National Banking System could be furthering a serious diversion of credit granted to the sector for these purposes.

2.1.8.2 Public investment projects

The government has developed a series of investment projects in the agricultural/livestock sector during the past few years. (Table 2-36). The largest investment has been in the sugar agro-industrial project in Guanacaste, with very strong disbursements in 1977 and 1978, which declined in 1979. At the same time, in this period the Costa Rican Development Corporation started another series of important agro-industrial projects, such as the breeding of shrimps (AQUACULTURE), the cotton project (ALCORSA) and the Corporation for Agro-industrial Development (DAISA), whose main objective is the marketing of agricultural produce.

TABLE 2-36

PUBLIC INVESTMENT PROJECTS BY PROGRAMS - 1976-1980

(Millions of colones)

PROGRAM	1976	%	1977	%	1978	%	1979	%	1980	%	TOTAL	%
ADMINISTRATIVE	-	-	-	-	4.41	0.76	4.48	0.89	-	-	8.89	0.42
GENERAL BASIC SERVICES	31.90	11.60	52.31	14.65	56.40	10.13	158.95	31.68	53.64	14.01	354.60	16.90
AGRICULTURAL DEVELOPMENT	12,63	4.50	13.40	3.75	3.35	0.58	1.82	0.36	9.72	2.54	40.92	1.95
LIVESTOCK DEVELOPMENT	0.81	0.29	2.55	0.71	3.12	0.54	13.06	2.60	12.85	3.36	32.39	1.54
FORESTRY DEVELOPMENT	5.85	2.08	2.50	0.70	-	-	0.43	0.09	-	-	8.78	0.42
FISHERY DEVELOPMENT	-	-	0.29	0.08	0.65	0.11	5.90	1.18	2.94	0.77	9.78	0.47
UTILIZATION AND CONSERVATION OF RENEWABLE NATURAL RESOURCES	9.20	3.28	12.54	3.51	14.58	2.54	19.93	3.97	71.64	18.71	127.89	6.09
AGRARIAN REARRANGEMENT	94.98	33.86	80.77	22.61	135.25	23.46	158.26	31.54	177.77	46.46	647.03	30.83
AGRO-INDUSTRIAL	125.75	44.83	192.81	53.98	356.64	61.88	138.83	27.67	54.23	14.15	868.26	41.38
TOTAL	280.52	100.00	357.17	100.00	576.40	100.00	501.66	100.00	382.79	100.00	2098.54	100.00

SOURCE: Executive Secretariat of Agricultural/Livestock Sectorial Planning

Another important project is the agrarian rearrangement that is being developed by the Land and Settlement Institute (ITCO), in order to establish farmer settlements, for which purpose investments are made both for the purchase of lands and for the development of infrastructure and basic support services.

The general basic service programs, the research programs and the technology transfer programs have also gotten important investments. These programs include very diverse actions such as marketing, education and research projects, among others.

Lastly, the fishery promotion program, while it has important projects for the development of the sub-sector, has received very meager investments.

2.1.9 Research and technology

Because of its characteristics of a country that is largely agricultural, it is in this sector where a process of research and of applied technology transfer has been developed to a greater extent than in others. In general, scientific and technological activities have been addressed more toward the forming of human resources at university level and to scientific research.

The importance of foreign technology is still felt in the sector, through the importation of tangible technology (machinery and equipment) and of chemical technology (basic raw materials for the production of fertilizers and pesticides).

Even more importance is attached to the importation of improved seed for the development of new crops, which in turn requires the application of technology with a high imported component inasmuch as this seed usually turns out to be

less resistant than the native varieties.

There are a number of institutions working on scientific and technical research in the sector. However, they are not coordinated and articulated in order to achieve a joint development of this research, which results in duplication and little efficiency in the findings.

The training of human resources for agriculture has been done at three different levels. University professionals have been trained as scientific researchers in different fields. Most of them work in research institutes of the universities themselves. An intermediate training level is represented by the professionals graduated from the universities, such as agronomists, veterinarians, etc. In general, they go on to work for public and private institutions that offer technical assistance to farmers, such as the experimental stations of the Ministry of Agriculture and Livestock, some farmers' associations, etc.

Lastly, there is another type of training at the level of agricultural vocational schools where specialists in agronomy are formed and the greatest emphasis is placed on the practical aspect.

The technical advisory service to farmers is given both through the government agencies and through private enterprises. In the former case, the people who are responsible for giving this technical assistance are largely the agricultural extension agencies of the Ministry of Agriculture and Livestock and some institutions like the Coffee Office and the Sugar Cane Agricultural and Industrial Association, which are devoted to specific agricultural activities.

The technical assistance of the private sector is centered mainly in the assistance given by companies marketing the agricultural/livestock inputs when such products are sold, and the assistance given by farmer organizations to their members.

In general, with the exception of foreign companies and of domestic companies that are integrated vertically, including agricultural production and the industrialization thereof, most farms do not have technical personnel of their own.

It may be stated that the country has adequate technical personnel to do the research and give the technical assistance required by the sector. However, there is a serious problem in connection with the location of such personnel. At present, they hold bureaucratic posts which are completely disconnected from the farms.

Therefore, in order to achieve growth in agricultural/livestock production and in the yield per operating unit, it is necessary to relocate this personnel so that there will be close contact with the farmers so that the technical assistance will be adequate and effective.

2.1.10 Physical infrastructure

The existence of a good physical infrastructure is essential for the achievement of general economic development goals, particularly in the agricultural sector. In Costa Rica, a series of important works have been carried out in order to expand the availability of adequate infrastructure.

In regard to roads, there has been a rapid

growth during the past few years, with emphasis on the construction of secondary and terciary roads intended to integrate the most diverse productive areas into the main markets.

However, there are serious regional differences as to the road program achieved. The Central and Chorotega (Guanacaste) regions have the greatest road development, while in the other regions it is only in recent years that a road-building process has been under way. In this way, these other regions are being integrated to a greater extent into the country's economic process.

A means of transportation that fulfills an important function for the agricultural/livestock sector is the railroad, since it transports part of the export products. For example, the National Atlantic Railway mobilizes in its area close to 90 per cent of the export and import goods, including bananas. However, its share has dropped in the past few years due to a lack of suitable investment, both in infrastructure and in equipment.

For its part, the Pacific Electric Railway has been losing ground as a means of transportation for agricultural and livestock products, due to the existence of an extensive road system in the area it covers, as well as due to its poor operation. However, the fact that this means of transportation is powered with electricity -- which source of energy has been developed considerably in the past few years -- makes it necessary to revamp it in view of the high prices of oil, which makes transportation by road expensive.

The important jobs that are planned in this

field for the next few years include:

i) Completion of the work of modernizing the railroad between Moín and Río Frío

ii) Financing the spur to the port of Caldera

iii) Construction of the stretch between El Roble and Colorado de Abangares, one of whose objectives is the transportation of fertilizers. It is planned to extend this line to Liberia.

Another important transportation method is the coastal shipping service, particularly in regions such as Chorotega, the Gulf of Nicoya area, and the Atlantic region, as a substitute for land transportation.

As to infrastructure facilities for export, there are at present four important ports providing greater efficiency to the transportation of export and import products.

The port of Caldera, on the Pacific, has a marginal pier 550 meters long, with an operating platform 30 meters wide. It has a dock for general cargo ships and a platform for roll-on, roll-off.

This port will be able to handle cargo for a total of 500,000 tons a year, and a group of silos has been provided for storing grains, a railroad line for hauling goods and two transient warehouses (5.4 and 5.7 thousand square meters) as well as a yard for containers, with an area of 16.5 thousand square meters and open-air storage.

The port of Moín, on the Atlantic, is 728

meters long and the marginal dock can handle five ships at the same time at its three quays (one for petroleum ships, another one for banana boats, and the third one for roll-on, roll-off). It also has railroad lines for hauling goods.

Next to the three old piers of the port of Limón is located the new dock, called the "German dock", which has three quays, totalling 450 meters in length. They are for general cargo, for containers, and for roll-on, roll-off.

The project has a storage area for 80 refrigerated containers, one warehouse for storing general cargo, and facilities for access by railroad cars.

The port at Punta Morales operates exclusively for the export of sugar, having a loading capacity of 600 metric tons an hour. It has a warehouse whose storage capacity is 80,000 metric tons. This port is managed by the Sugar Cane Agricultural and Industrial Association.

Another important aspect of the physical infrastructure is the development of irrigation projects that will make it possible to incorporate or improve productive areas.

In the sugar cane and coffee zones of Tacares is being developed the Río Itiquís irrigation project, while in Guanacaste, the Tempisque Lower Basin irrigation project is being carried out. This latter project consists of putting under irrigation, in approximately 20-25 years, some 125 thousand hectares of the best lands in the province.

To do this, it is planned to utilize water from the operation of the Arenal hydro-electric plant, plus the

normal flow of the rivers and the underground waters in the area.

With irrigation, the country's farming will be modernized. It will change over from low-yield, high-risk operations, to irrigation farming, which will be highly profitable and will use the land the entire year and will ensure high production by eliminating the problem of drought. This program has barely been started and plans for this year include the incorporation of some 3,600 hectares into the irrigation plan.

As regards storage capacity, most of it is located in the central region (67 per cent), with capacity problems in the areas producing cereals and sugar, such as Guanacaste. (Table 2-37). There are also problems with warehouses for coffee that will make it possible to hold inventories awaiting better world prices for this product.

Refrigerated storing of export products will be available to a large extent with the installation, at CENADA, of cold storage for such purpose. At present, cold storage capacity is an important limitation for exports.

2.2 Prospects for the Sector

2.2.1 Production

In order to analyze the prospects for the sector, the export products must be dealt with differently from those intended for domestic consumption.

The export products, which have benefited from higher revenues in colones as a result of devaluation, have a strong incentive to increase production. What is more, it is expected that there will be a record coffee crop for the 1982-1983 harvest.

TABLE 2-37

PUBLIC AND PRIVATE STORAGE CAPACITY(1)

1980

-by regions-

REGION	PUBLIC SECTOR		PRIVATE SECTOR		TOTAL	
	MT	%	MT	%	MT	%
Central	58.351	65	66.918	69	125.269	67
Chorotega	19.320	22	22.678	23	41,998	32
Brunca and Atlantic	11.776	13	7.714	8	19.490	11
TOTALS	89.447	100	97.312	100	186.757	100

(1) Includes silos and warehouses

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning

However, these products depend to a large extent on international quotations.

The prospects with regard to international prices are not very attractive for the country. At the present time, international quotations on sugar, coffee and beef are very low. These items are going through the low period in their cyclical evolution.

Another important limitation for a sustained increase in export prices is the existence of export quotas. In the case of coffee, Costa Rica produces more than the quota assigned in preferential markets and in selling to non-regulated markets, the price obtained is quite lower than the price paid in preferential markets. As to sugar, production has not been enough to cover the quota assigned under the International Sugar Agreement, as a result of the increasing domestic consumption. There is a possibility to increase considerably the export volume of this product.

In regard to bananas, exporting is done by the transnational companies, which dominate the international market and fix the prices. While the devaluation has increased Costa Rica's competitive situation, the high imported component involved in this crop reduces the possible profits from devaluation, which would not be enough to invert the present trend toward a substitution of banana plantations by oil palm plantations in some areas.

Non-traditional, agricultural/livestock export products have important incentives to increase production. However, in this case the limitations that exist are the country's

capacity to export, whether due to transportation problems, inability to open markets or quality requirements imposed by the importers.

The prospects for agricultural/livestock production for domestic consumption are closely connected with the domestic price policies adopted by the government, as well as the evolution of the rate of exchange, and inflation. If the price policy that the government follows is to adjust prices to rising costs of production, sufficient incentives would be created to increase production.

Another element that must be considered, in addition to prices, is the credit policy because, as was analyzed above, agricultural/livestock production is extremely dependent on credit. However, if the present situation continues, and in spite of the considerable increase expected in the credit for the agricultural/livestock sector, this would not guarantee an increase to the same extent in production levels if, at the same time, stiff controls are not set up for the use of such credit in order to prevent diversion thereof, and a considerable technical assistance to the farmers for an efficient use of their resources.

As to the agro-industrial sector, prospects for 1982, according to the Industrial Status Survey are that the division most affected is the one manufacturing wood products, while it is estimated that there will be a slight recovery in the production of food items, beverages and tobacco, as well as in foot-

wear manufacturing as a result of the process of substitution of imports that has been taking place in this sector.

This increase that is expected in the agro-industrial sector could contribute to attain important increases in the production of the agricultural/livestock products that are used as raw material.

2.2.2 Financing

Due to the fact that the new government has not announced its credit policy, the prospects for 1982 are based on the 1982 credit program approved by the previous administration of the Central Bank.

The credit program prepared for 1982 shows an increase of almost 100 per cent in the credit assigned to the agricultural/livestock sector. This would make it possible to recover, in part, the share of such sector in the generation of the gross production value. With this increase, the variation rate of credit to the sector exceeds the variation rate of the gross production value. However, it will not be enough to recapture the share it had prior to 1981.

For 1982, the policy of benefiting non-traditional products with a larger proportion of the credit will be continued, as well as the increasing utilization of market rates.

However, it is not expected that these rates, in real terms, will take on positive values in the near future since they will continue to be under the inflation rate.

A few days ago, the Central Bank announced the lower-

ing of interest rates for the agricultural/livestock sector, and fixed rates that oscillate by 18 per cent.

As to the breakdown of the credit provided for in this program, staple cereals receive 34.7 per cent of the overall credit, and export products such as beef and coffee continue to have a high share. As to non-identified items, important lines are bananas, with 3 per cent of the total, and the marketing of rice and sugar, which will get more than 13 per cent of the agricultural/livestock credit for 1982. (Table 2-14)

2.2.3 External Sector

The prospects for the external sector seem to indicate that at least during the next few years, exportation of traditional products will continue to be the largest source of inflow of foreign exchange into the country, particularly when the devaluation process makes them more competitive.

Among these products, the ones that have the greatest prospects for increasing their export volume are: sugar and beef, since coffee does not have any more quotas for exporting to markets where the best prices are obtained, and bananas depend on the decisions by the transnational companies.

The non-traditional products will be able to expand their exports if an aggressive and efficient policy is developed to promote exports, i.e., with serious market studies and mechanisms to access these markets. For this purpose, it is essential to change production guidelines and install a process of production for export. It is unlikely that the present situation can be changed

in a short time and therefore, non-traditional products will continue to represent a small proportion of the total volume of exports of the sector.

What is more, if the present trend continues, in order to manage to maintain present levels of food consumption, if the domestic production does not increase considerably, the exports of agricultural/livestock products will continue to decrease.

As to the imports of raw materials and capital goods for agriculture, the prospects for this year are for a very serious contraction thereof. Agro-chemical importers estimate a drop of 35 per cent in the purchase of veterinary products, and of 30 per cent in the purchase of pesticides. In addition, it is felt that the importation of machinery and equipment will come practically to a standstill in this year. This means less production which, in turn, can worsen the drop in exports of non-traditional products.

At the same time, the importation of food items, due to the increase in prices in colones for imports, will hold their downward trend. However, there is a series of products that will probably not decrease, since they are essential in Costa Ricans' diet, and if an important increase in domestic production is not scheduled, it will be necessary to import them notwithstanding their increasing cost.

2.2.4 Demand for goods of the sector

If the production of food is slack and imports continue to decrease as a result of high prices in colones and shortage of foreign exchange, in order to maintain a stable per capita consumption of these products, the exportation thereof must continue to be reduced.

At the same time, the decrease in people's income level can force changes in the consumption structure of agricultural/livestock products, increasing the demand for less expensive goods such as staple cereals, which could well cause a comparative shortage of those that are still imported in considerable volumes.

2.2.5 Prices

It is extremely hard to make an appropriate forecast on future international prices of export products. However, the present trend in prices of the main export products continues to be downward in the international market. These new prices could discourage domestic production if, in addition, the positive effects that the devaluation of the colón has had on these products are eliminated or reduced.

As regards domestic prices, the new government contemplates the elimination of most of the subsidies that had been granted by the previous government to many agricultural/livestock products, such as the case of staple cereals, whose support price for 1982 was practically doubled; and wheat had an increase of more than one hundred per cent.

Furthermore, this policy seems to be aimed at greater price stability, reducing the number of products whose price will be regulated.

This could affect the domestic demand for agricultural/livestock goods if the purchasing power of wages is not readjusted properly. While producers have the possibility of increasing their exports, legally or otherwise, toward other markets taking advantage of the improved competitive situation afforded by de-

valuation, as well as of the price differential with the markets of the countries in the area, the domestic market continues to be the most important market as far as sales volume is concerned.

2.2.6 Employment

The agricultural/livestock sector, even if it does not jack up its production, can be a dynamic sector in regard to the generation of employment, if the present trend of substituting imported machinery and agro-chemicals through the more intensive utilization of the labor factor.

However, this sustitution has a limit, determined by the profitability obtained per hectare. Therefore, in order for the sector to continue as a generator of employment, it is also necessary to increase the area under cultivation.

At the same time, if the present trend toward the concentration of land tenure continues, there will continue to be a sustained increase in wage earners because, in spite of the migration toward the cities, caused by said concentration, many of the former owners go on to handle agricultural tasks as wage earners.

2.2.7 Investment

Unfortunately, the data on investment are available only up to 1979. However, due to the uncertainty caused by the devaluation process, it can be stated that investment dropped in 1980 and 1981. Very little can be said about the future of private investment in the sector, except that the stimulation thereof will be very closely related to well-defined and stabilizing

government policies. Therefore, whatever priorities the government assigns to this sector are very significant for the private sector.

In the 1982-1986 Government Program called "Let's Go Back to the Soil", it is set forth that "the fundamental strategy of the agricultural/livestock policy will seek:

1. to produce more food
2. to export agricultural/livestock products and obtain foreign exchange
3. Develop agricultural sources of energy to replace oil
4. To generate employment
5. Attain the ideal of a society of proprietors instead of a society of proletarians"

In addition, it states that "Firm and necessary steps will be taken in order to set up a system that will stimulate general production and another for agricultural/livestock development that will guarantee to the country that in four years, a clear agricultural policy will be consolidated, that will lead to the improvement of the economy in general and of rural life in particular".

The Executive Secretariat for Agricultural/Livestock Sectorial Planning has drawn up the annual operating plan of the sector for 1982. This operating plan sets production goals (Table 2-38) for the most important products of the sector, as well as the priorities for the sector, which in many cases coincide with the new government's program. The policies are considered neces-

TABLE 2-28

PRODUCTION GOALS AND GROWTH RATES FOR THE 1982-1983 AGRICULTURAL PERIOD (1979 PRICES)

PRODUCTS	1979 Price (C/MT)	1981-1982 Volume (MT)	1981-1982 Value Thousand C	1982-1983 Volume (MT)	1982-1983 Value Thousand C	Growth Rates
I. EXPORT						
A. Traditional						
1. Coffee (bean)	19.518	107.462	2.097.443,3	115.950	2.263.697,6	7,9
2. Bananas	1.451	1.071.072	1.554.125,5	1.209.938	1.755.620,0	13,0
3. Beef	8.945	140.720	1.258.740,4	144.968	1.296.739,8	3,0
4. Sugar cane	134	2.184.940	292.782,0	2.198.017	294.534,3	0,6
5. Cacao	21.012	5.000	105.060,0	4.000	84.048,0	-20,0
B. Non-traditional						
1. Melons	8.600	3.600	30.960,0	6.000	51.600,0	66,7
2. Pineapples (units)	7,2	-	-	-	-	-
3. "Pejibaye" centers	2.899	2.500	7.247,5	9.500	27.540,5	280,0
4. Peanuts	4.125	230	948,8	800	3.300,0	247,8
SUB-TOTAL			5.347.307,5		5.777.079,2	8,0
II. DOMESTIC CONSUMPTION						
A. Staple cereals						
1. Rice	2.489	117.125	291.524,1	136.166	338.917,2	16,3
2. Corn	1.440	84.602	121.826,9	105.000	151.200,0	24,1
3. Beans	4.520	15.762	71.244,2	18.900	85.428,0	19,9
4. Sorghum	1.107	32.485	35.960,9	40.000	44.280,0	23,1
B. Oil-producing plants						
1. Cotton	13.378	575	7.692,4			
2. Soy bean	3.500	1.250	4.375,0	3.500	46.823,0	508,7
3. Oil palm	800	205.326	164.260,8	4.470	15.645,0	257,6
4. Coconuts (units)	1	8.000.000	8.000,0	209.335	167.468,0	1,9
C. Fruits and Vegetables				8.700.000	8.700,0	8,8
1. Potatoes	4.200	26.077	118.148,0			
2. Plantains	1.406	89.430	125.738,6	27.419	115.379,2	-2,3
3. Yucca	452	16.959	7.665,5	91.576	128.755,9	2,4
4. Onions	3.464	3.536	12.248,7	18.053	8.160,0	6,5
D. Stimulants				3.536	12.248,7	0,0
1. Tobacco	14.829	1.896	28.115,8			
E. Livestock 1/				1.930	28.620,0	1,8
1. Milk (thous.liters)	2.799	320.285	896.477,7	320.285	896.477,7	0,0
2. Hogs	10.911	21.376	233.233,5	20.307	221.569,7	0,0
3. Eggs (mill.units)	[illegible]	392.087	217.216,2	392.087	217.216,2	0,0
4. Poultry	9.411	6.089	57.303,6	6.089	57.303,6	
F. Forestry (m^3)	576	618.588	356.336,7	585.397	337.188,7	-5,4
SUB-TOTAL			2.757.336,6		2.881.380,9	4,5
TOTAL			8.104.646,1		8.658.460,1	6,8

1/ Excepting hogs, the production figures for 1981-82 for the Livest Sub-Sector are shown because there are no estimates for 1982-1983

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning

sary for the achievement of these objectives and the specific programs to be carried out are detailed in Table 2-39. A credit program for the agricultural/livestock sector is also provided, with which it is intended to furnish an incentive to attain the production goals. (Table 2-40)

The investment projects that have been planned by the public sector in the field of agriculture are of real importance since many of them have the objective of promoting or shoring up private investment.

Table 2-41 contains an inventory of agro-industrial projects, whose development is being studied by the various public institutions, many of which projects, it is expected, will be carried out by private companies, either domestic or foreign.

2.3 Fundamental problems of the sector

In order to stimulate the agricultural/livestock sector, the serious problems presently limiting its development must be taken into consideration. Some of these problems are common to all of the productive sectors and while they have already been analyzed in the first few pages of this document, it is important to see how they affect this sector particularly.

There are also limitations of the sector itself, which also hinder its development.

The most serious limitations faced by the agricultural/livestock sector are the following:

i) Agricultural/livestock production is highly dependent on credit given by the National Banking System and other

TABLE 2-39

Summary of Sectorial Objectives and Policies, and institutional responsibilities by program 1982

OBJECTIVES	POLICIES	PROGRAMS	RESPONSIBLE At level of Agricultural/ Livestock Public Sector
1. Ensure and increase the supply of agricultural/livestock products.	1.a General support for increasing production	1.1 Staple cereals	CNP, ONS, MAG, INS, SSN
		1.2 Cotton	ALCORSA
	1.b Stimulate production for domestic consumption.	1.3 Soy bean	CARE, Central Bank, CNP, MAG, ITCO.
		1.4 Coconut	ASBANA
	1.c to 1.l, except 1.j and 1.k, are support service policies	1.5 Tobacco	Tobacco Defense Board
		1.6 Agro-energy	MAG, UCR, ITCR, ITCO, OFIPL
		1.7 Other products	OFICAFE, ASBANA, MAG
	1.j Realistic, coherent and profitable price policy.	1.8 Milk	SEPSA, MEIC
		1.9 Hogs	Hog Development Board
		1.10 Poultry	Poultry Development Boa
	1.k Special input marketing program.	1.11 Fishery	National Fishery Commit MAG, ASBANA, CODESA, IT
	1.m Credit policy to be applied at the right time and in the right amount, to priority activities.	1.12 Forestry	MAG
		1.13 Marketing	CNP, MAG, LAICA
		1.14 Storage	CENADA, CNP
		1.15 Prices	CNP, MEIC
		1.16 Technical Assistance	MAG, ITCO, Banco Nacion de Costa Rico
		1.17 Agricultural Research	MAG, ITCO, CONTAGRO
		1.18 Seed program	ONS, CNP, MAG
		1.19 Fertilizers	FERTICA, SEPSA
		1.20 Plant Health	MAG
		1.21 Animal Health	MAG, PRONASA

Table 2-39 (brought forward)

OBJECTIVES	POLICIES	PROGRAMS	RESPONSIBLE At level of agricultural/livestock Public sector
2. Contribute to improvement of the country's trade balance through increase of exports.	1.c Stimulate production of export products.	2.1 Coffee	OFICAFE, MAG, UCR
	1.d Incorporate farmer into foreign marketing phase.	2.2 Banana Development Program	ASBANA, MAG, BCCR, CODESA, BNCR, UCR
		2.3 Beef	SEPSA
		2.4 Sugar Cane	MAG-LAICA Agreement
		2.5 Cacao Program	Executive Committee f Cacao Activity
		2.6 Melon	DAISA
		2.7 Pineapple	DAISA
		2.8 "Pejibaye" centers	DAISA, ITCO, ASBANA
		2.9 Development of Exports	Subsector for Promoti of Exports and Invest
3. Improve living conditions of rural population.	2.a Suitable wage policies consistent with increase in cost of living.	3.1 Rural Women's Development	MAG, AFEMAG, INA, CON MEIC, DINADECO, IICA, SE
	2.b Promote labor-intensive activities		
	2.c Support setting up of agro-industries requiring labor		
	2.d Strengthen rural women's development		

Table 2-39 (brought forward)

OBJECTIVES	POLICIES	PROGRAMS	RESPONSIBLE At level of agricultural/livestock Public Sector
4. Promote farmer organizations	3.a Consolidate CAC's, Development Councils and Farmers' Committees or Boards	4.1 Rural organization	MAG
	3.b Encourage organization of farmers into coops or self-managed enterprises.		
	3.c Give priority to support services for cooperative and self-management groups.		
5. Incorporate landless farmers into the production process	4.a Accelerate farmer settlement programs and others aimed at integral development.	5.1 Agrarian Rearrangement	ITCO
	4.b Draw up and implement programs for graduates of agricultural schools		

Table 2-39 (brought forward)

OBJECTIVES	POLICIES	PROGRAMS	RESPONSIBLE At level of agricultural/livestock Public Sector
6. Improve utilization of production factors.	5.a General policy: strengthen irrigation and zoning of production.	6.1 Education and training	INA, ITCO, MAG
	5.b Project for integral development of Lower Basin of Tempisque River, and Itiquis Project.	6.2 Irrigation	SNE, MAG, SENAS
		6.3 Forest Control and regulation	MAG
	5.c Preparing drainage and irrigation projects.	6.4 Fishery Control and regulation	MAG
		6.5 National parks	MAG
	5.d Zoning Program	6.6 Rearrangement or watersheds	SEPSA, MAG
	5.e Orderly development program for fishery resources.	6.7 Budget for the Agricultural/Livestock Public Sector	Institutions of t Agricultural/Livestock Public Secto
	5.f Forestry Program, with strict control of the utilization of the resource.	6.8 Transfers	Institutions of t Agricultural/Livestock Public Secto
	5.g Improve the industrial utilization of timber.	6.9 Credit Program	S.B.N.
	5.h Improve productivity of human resources.	6.10 Investment Projects	MAG, ITCO, CNP, IN SNE, ICE, MEP

82

Table 2-39 (brought forward)

OBJECTIVES	POLICIES	PROGRAMS	RESPONSIBLE At level of agricultural/livestock Public Sector
7. Improve the Institutional System of the Sector and consolidate the planning sub-system	6.a Strengthen the Institutional Planning Units.	7.1 Administration	MAG, ITCO, SEPSA, OFIPLA COTECSA, Ministry of Finance, Controller's Office
	6.b Examine the budget system by programs.		
	6.c Set up follow-up and control systems for Projects.	7.2 International Technical Cooperation Projects	MAG, ITCO, ASBANA and SNE
	6.d Continue and consolidate the regionalization process.	7.3 Control and Evaluation	SEPSA, Institutions of the Agricultural/Livestock Public Sector
	6.e Strengthen the information system.		
	6.f Integrate actions of the sector with actions of other sectors.		

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning.

TABLE 2-40

CREDIT PROGRAM FOR THE AGRICULTURAL/LIVESTOCK SECTOR
1982

ACTIVITIES	Area (Hectares)	Amount (Millions of ₡)
A. Agriculture		
1. Staple cereals		
a. Rice (machine-milled)		
-Commercial	85.000	1.512.4
-Seed	4.500	80,1
b. Corn		
Machine- and partly machine milled)	60.000	737,9
c. Sorghum		
Rainy and dry season	20.000	208,5
d. Beans	35.000	392,8
2. Improving Coffee Production		
a. New planting	5.400	228,4
b. Replanting	600	32,6
3. Irrigation and drainage (parcel readjustment)	320	4,8
4. Cacao development program		
a. Cacao		
-New planting	700	13,5
-Replanting	500	9,7
-Reclaiming	1.000	9,6
b. Plantains		
-New planting	700	10,4
-Replanting	500	7,4
5. Annual crops		
a. Cotton	5.000	91,5
b. Soybean	3.000	15,0
c. Melons	500	11,5
d. Peanuts	500	5,7
e. Tobacco	1.500	61,4
6. Banana Development Program		
a. New planting	2.536	255,0
7. Sugar cane program		91,4
a. Seedbeds	970	
b. Replanting	3.380	
8. Sugar cane plantation maintenance		66,4
9. Coconut program		
a. New planting	150	4,0
b. Reclaiming	250	2,5
10. Macadamia		
a. New planting	350	4,1
11. "Pejibaye"		
a. New planting	750	26,2
12. Silk production	100	1,5
13. Coffee crops		925,2
14. Rice marketing		789,3
15. Sugar marketing		379,0
16. Agricultural pre-exports		10,0
17. Other agricultural credits		575,9
18. Reforestation	2.000	30,0
19. Small farmer, Community self-managed farming enterprises, Rural Women's Development and AID-T-027		515,0
20. Agricultural readjustments		112,3
B. Livestock and Fishery		
1. Cattle raising (beef and dairy)		400,0
2. Cattle development		314,0
3. Cattle fattening		314,0
4. Hog and other livestock raising		80,0
5. Other livestock credits		260,0
6. Livestock readjustments		14,0
7. Fishery plan		22,7
8. Prawn raising		9,0
9. Aquaculture		10,0

C. Other
1. Salt

11,9

INTEREST RATES:

The activities whose interest rates are subsidized are: Small Farmer, Community Self-Managed Farmer Enterprises, Rural Women Development and AID-T-027 - 12.0%

Cattle raising, 16%. Reforestation, 8.0%. Fishery Plan, 11.0%.

For the agriculture and livestock readjustment plans, the rate of interest shall be the average weighted in accordance with the rules set forth by the National Banking System, and shall be left to the discretion of each of the commercial banks.

For the rest of the activities, the interest rate shall be the passive basic rate plus 3.5 points. On February 4th, 1982, the passive basic rate was 21.5%; therefore, the market interest rate was 25% per annum.

Source: Executive Secretariat for Agricultural/Livestock Sectorial Planning.

135

TABLE 2-41

INVENTORY OF AGRO-INDUSTRIAL PROJECTS
(OCTOBER, 1981)

NAME OF PROJECT	PRESENT STATUS	INVESTMENT (millions of ¢)	PRODUCT TO BE PROCESSED	LOCATION	PLANT CAPACITY
1. Ginger processing plant	Prefeasibility	0.9	Sliced, dry ginger	Siquirres	3.2 M.T./8 hours
2. Tropical fruit proc. plant	Feasibility	0.9	Pulps, jellies and candied fruit	Orotina	2 M.T./8 hours
3. "Palmito" cannery	Profile	14.0	Canned "palmito"	Guápiles	6.6 mill.stalks/ye
4. Pineapple processing plant	Prefeasibility	23.6	Slices, pulp and juice	San Carlos	80 M.T./8 hours
5. Citrics processing plant	Profile	18.9	Juice concentrate and pulp	Buenos Aires	11.3 M.T./evaporat
6. Annatto processing plant	Idea	NA	Paste and seed	Quepos	-
7. Papaya and mango proc.plant	Prefeasibility	0.7	Non-concentrated pulp	Paquera	2 M.T./8 hours
8. Papain extracting plant	Profile	6.8	Refined papain	Cañas	20 M.T./year 1/
9. Oil plant processing plant 2/	Feasibility	636.5	Cotton, soybean and peanuts	Guanacaste Prov.	-
10. Lemon production 2/	Feasibility	14.6	Lemons	Buenos Aires	-
11. Ramie growing and industrialization	Profile	56.0	Textile fiber and flour	Atlantic Zone	Fiber: 5.1 MT/8 h Flour: 28.0 MT/8
12. Cashew processing plant	Feasibility	16.9	Almond and oil	Bagaces	4 MT/8 hrs.
13. Sesame hulling plant	Profile	3.5	Hulled sesame	Santa Cruz	2.25 MT/8 hours
14. Banana flour plant	Prefeasibility	7.3	Banana flour	Pococí	65 MT/8 hours
15. Banana starch plant	Prefeasibility	3.0	Starch	Limón Prov.	10 MT/8 hours
16. Banana alcohol plant	Prefeasibility	7.4	96° GL alcohol	Limón Prov.	3300 lts./8 hours
17. Vegetable processing plant	Prefeasibility	28.7	Fresh tomatoes and paste	Guanacaste	7 MT/8 hours
18. Coffee industrialization	Idea	NA	Toasted and ground coffee		

Source: Corporation for Costa Rican Agro-Industrial Development (DAISA)

1/ Of refined product
2/ Agricultural project

national or foreign institutions. Due to the high risk involved in this activity, farmers are not willing to use their own resources to develop it. Furthermore, the credit policy followed so far, involving low interest rates and large sums granted at subsidized interest rates, have attracted farmers that depend on credit.

In general, farmers find it more profitable to utilize government funds, and use their own funds for other activities, largely financing. This situation has become worse during the past two years, when the real interest rates paid for loans from the National Banking System are negative, which prompts credit diversion with greater force toward speculative activities and the purchase of foreign exchange to be deposited abroad.

Therefore, a program intended to stimulate the sector must consider this aspect with priority, in order to create the necessary control mechanisms, as well as those that will encourage farmers to use their own resources.

ii) Costa Rica has not developed any agricultural production for export, other than bananas. The general trend has been to develop agricultural products for domestic consumption, and try to export surpluses to the traditional markets. This is a very serious limitation for non-traditional exports of the sector, since as a rule, the production intended for domestic consumption does not meet quality standards set by the importing countries, and while it is true that they could be sold to non-

traditional markets, the country does not have the required experience and knowledge to gain access to such markets. Furthermore, there are important limitations in regard to transportation toward new markets.

In order to stimulate the sector's production, the exportation of its products is an important element. Therefore, steps aimed at reducing some of the quality requirements, that very often are imposed as protectionist barriers, would be very helpful, as well as suitable information on access to non-traditional markets.

Another serious problem under the limitations for export are plant health barriers, mainly the bureaucratic steps required to meet such requirements, which very often cause serious losses, particularly in the case of perishable goods.

Similarly, export quotas under the generalized preferencial system seriously limits the expansion of exports, even in the case of non-traditional products.

iii) During the past two years, due to the economic crisis through which the country is going, agricultural/livestock production tends to decrease as a result of low investments in the sector originating in the present economic uncertainty, as well as the important increase in production costs. This situation affects, to a greater extent, products which are intended for domestic con-

sumption, because prices have not been readjusted to the same extent as costs. Therefore, there is a trend for farmers to use a smaller quantity of imported inputs, specifically fertilizers and pesticides, which results in less production volume. Low domestic prices, in turn, create an important differencial with prices prevailing in neighboring countries (particular with products such as staple cereals and sugar), which leads to the smuggling of such products out of the country, which, in turn, creates a domestic shortage and the permanent outflow of foreign exchange from the country.

At the same time, the maintaining of domestic consumption levels in the light of a drop in production and in imports due to devaluation, has been achieved, during the past year, at the expense of a substantial reduction in exports of agricultural/livestock products, excluding coffee, cacao and bananas, whose domestic consumption is not significant.

iv) As a generator of employment, the sector lost impulse during the last few years. However, in spite of its having released workers, there is an important increase in the number of wage earners in the sector, as a result of an important concentration in land tenure, particularly in comparatively new production areas, which is displacing small owners, who then become rural wage earners.

v) Lastly, it is necessary to solve the problems of a lack of adequate zoning of crops, as well as of sufficient seed production and appropriate technology, that is apparent in some products. Zoning is important because the agricultural frontier in extension is about to reach the end. However, there is an ample agricultural/livestock potential if the use of the land and the present cultivation practices are restructured in an effort to attain intensive crop development.

2.4 Institutional Framework

The institutional framework that serves as support for the agricultural/livestock sector includes both public and private organizations. In general, it may be stated that, one way or another, all of the public institutions have important connections with the sector.

Below is a complete list of the organizations participating in the development of the agricultural/livestock sector, and a description of the most important ones.

2.4.1 Institutions of the Central Government

- Legislative Assembly
- Agricultural/livestock vocational schools
- Bureau of Statistics and Census (MEC)
- Geographic Institute (MOPT)
- Ministry of Agriculture and Livestock (MAG)
- Ministry of Economy and Commerce (MEC)
- National Planning Office (OFIPLAN)
- Wage Office (Ministry of Labor)

- Presidency of the Republic
- Bureau of Community Development (DINADECO)
- Agricultural/Livestock Sectorial National Council (CAN)
- Executive Secretariat for Agricultural/Livestock Sectorial Planning (SEPSA)

2.4.1.1 Ministry of Agriculture and Livestock

The directive body for the country's agricultural/livestock policy is the Ministry of Agriculture and Livestock. Among the plans of the present government is the strengthening of this Ministry, and organizing it so that it will operate efficiently so that it will achieve its function of orienting and coordinating the sector.

Its most important general function is to develop the Government's agricultural/livestock policy, taking into consideration regional peculiarities as well as available resources, guaranteeing a suitable utilization of the land and other renewable natural resources, an increase in the national product, the fair distribution of income, and a rational utilization of the human potential in the rural sector. At the same time, it seeks to contribute to the increase and diversification of exports, and to the substitution of imports, to the promotion of the industrialization of agricultural/livestock products and to the achievement of a policy of fair prices to farmers, compatible, insofar as possible, with the purchasing power of the consumers.

As to more specific functions, it does the following:

i) Applied research, seeking to increase the pro-

ductivity of agricultural enterprises and incorporate them into the technological development in order to attain greater dynamism in the country's agriculture.

ii) Promote the development of rural organizations of all kinds.

iii) Training to improve farmers' technical knowledge and developing programs of visits by specialists of the Ministry into the field, with the same purpose.

iv) Issue information and disseminate the findings of research so that they will be available to farmers.

v) Technological research in order to increase the industrialization of the sector's products

vi) Promotion of practices in the handling of products, in order to prevent pre- and post-harvesting losses

vii) Promote farmers' fairs as well as market studies.

The Ministry of Agriculture and Livestock also acts through the Cantonal Agricultural Centers, whose objective is to promote the population's participation in the proposing and implementation of programs intended to achieve agricultural development. The activities of these centers include facilitating the obtaining of credit for their members; carry out necessary works and services for developing agriculture, and promote training in the use of resources available in the community.

2.4.1.2 Executive Secretariat for Agricultural/Livestock Sectorial Planning (SEPSA)

This Secretariat works under the National Planning Office and is entrusted with all of the aspects of agricultural/livestock planning.

Its main function is preparing the annual operating support plans for the sector, as well as cooperating in the formulation of the credit program for the sector.

This office works, in general, as an adjunct, but also makes studies on an individual basis, particularly emphasizing products that face important problems and in which the country is not self-sufficient.

Among the most important programs is agricultural diversification, the development of fishery, as well as the developement of specific regions. Also, diagnoses are prepared on various products, marketing studies are made, and the status of the sector is evaluated.

2.4.2 Autonomous and semi-autonomous organizations

- National Banking System (SBN)
- National Production Council (CNP)
- Costa Rican Electricity Institute (ICE)
- National Institute for Cooperative Promotion (INFOCOOP)
- National Insurance Institute (INS)
- Land and Settlement Institute (ITCO)
- Port Administration Board and Economic Development of the Atlantic Versant (JAPDEVA)
- Sugar Cane Agricultural and Industrial Assn. (LAICA)

- Coffee Office (OFICAFE)
- Grains and Seed Research Center (CIGRAS)
- Food Technological Research Center (CITA)
- University of Costa Rica (UCR)
- National University (UNA)
- Costa Rica Technological Institute (ITCR)
- National Electricity Service (SNE)
- National Training Institute (INA)
- Center for the Promotion of Exports and Investment (CENPRO)
- National Council for Scientific and Technological Research (CONICIT)

2.4.2.1 National Banking System

The "Banco Nacional de Costa Rica" is the member of this system that maintains closest relations with the agricultural/livestock sector because, while the Central Bank prepares the annual credit program for the sector, these funds are mostly channeled through the National Bank.

Furthermore, in order to meet the objectives of the loans, the National Bank, as part of its functions, trains farmers in an effort to introduce recent techniques into the sector, as well as the development of administrative techniques at the farm level.

2.4.2.2 National Production Council

Its main objective is stimulating agricultural, livestock and marine production, as well as stabilizing the prices of the sector's products which are fundamental for Costa Ricans'

diet and of the raw materials required by domestic industry, seeking a fair balance between farmers and consumers.

Its specific functions are:

i) Direct purchase of staple products for domestic consumption (mainly, staple cereals) at prices that will guarantee fair profits for the farmer and the consumer.

ii) Acquire seed, fertilizers, insecticides and other products for the benefit of agriculture and livestock.

iii) Acquire selected animals to improve domestic livestock and set up nurseries for fruit and timber trees...

iv) Set up silos, driers, warehouses, cold storage rooms for storing and industrializing agricultural, livestock and marine goods.

v) Acquire machinery, equipment, tools for agricultural and livestock purposes, and encourage the mechanization of agriculture to obtain greater efficiency and productivity.

vi) Stimulate the forming of marketing cooperatives, as well as production and mechanization cooperatives, for the purpose of industrializing agriculture, livestock and fishery wherever it is feasible.

vii) Set up warehouses for distribution and sale, or markets for retail sale of staple items.

In order to meet the above objectives, the Council can obtain loans

as well as for exporting and importing whatever products it may deem necessary.

2.4.2.3 National Institute for Cooperative Promotion

This institution was created for the purpose of cooperating in the integral development of cooperativism and of helping the cooperatives in the various fields in which they work. Therefore, in order to meet these objectives, the Institute carries out the following activities, among others:

i) It gives technical assistance, for example in the development of industrialization and mechanization of agricultural/livestock products, as well as in domestic and foreign marketing thereof. In addition, great importance is attached to qualifying cooperative members in administration.

ii) It gives financing for investment and working capital for agro-industry and agriculture

2.4.2.4 National Insurance Institute

In the agricultural/livestock field, the National Insurance Institute acts through crop insurance, which allow farmers to eliminate part of the risk involved in the agricultural activity due to its high dependence on natural phenomena.

Crop insurance covers crops such as rice, cotton, beans, sorghum, corn and soybeans in different areas in the country and at the present time it is studying the possibility of including more products and more areas under this protection system.

The deficits that have accompanied this type of insurance have forced the Institute to impose more stringent con-

ditions for granting the insurance.

In addition to crop insurance, there is another type of insurance covering cattle, for the same purpose as the former.

Concurrently with its role as insurer, the Institute gives technical assistance, mainly as to the use of fertilizers and pesticides. Another important aspect is its campaign aimed at preventing brush burning on the countryside, which practice often turns out to be harmful for agriculture.

2.4.2.5 Land and Settlement Institute (ITCO)

The main scope of ITCO are described as follows:

i) matters connected with a better distribution and utilization of land, its production and productivity in terms of the country's economic development.

ii) Promoting agricultural workers in order to give them access to land in ownership, with an institutional support system that will afford them a decent standard of living for their families.

iii) Protecting the national heritage in the form of natural resources.

In the operation of ITCO, two broad areas are identified, from which the different programs originate. They are:

i) Assigning and developing lands, for the purpose of forming, developing and consolidating farmer settlements.

ii) Legislation connected with land tenure, which is subdivided into:

- squatters on private farms
- squatters on government farms
- titling national reserves
- rearrangement of lands belonging to ITCO
- Indian reserves

Up to August, 1980, ITCO had benefited more than 50,000 families on an area exceeding 1.25 million hectares. This has been done through different programs.

For example, the farmer settlement program seeks to incorporate the farmers chosen, into the ownership of land, by organizing them and training them so they will increase their production and productivity, and raise their standard of living. Land is given out on a collective basis or in individual lots, in an effort to constitute efficient productive units. Therefore, in addition to the land, ITCO also supplies support works or services, such as roads, bridges, housing, agricultural credit, product marketing, etc.

This institute became the Institute for Agricultural/Livestock Development by means of law 6735, of April 15th of the current year. This law essentially maintains the functions of ITCO, but has greater participation in such aspects as:

i) State policy on agrarian matters

ii) Obtaining financing for agricultural/livestock development

iii) Preparing, with the National Banking System,

the development of projects for the best allocation of agricultural credit.

iv) Encourage the forming of social organizations, such as community, self-managed farmer enterprises, cooperatives, etc.

v) Cooperate with other institutions in research for agricultural/livestock projects and the implementation thereof.

2.4.2.6 National Training Institute

This institute develops some basic projects which are related to the sector:

i) Mobile agricultural/livestock program: seeks to train specialists for the agricultural/livestock sector in rural areas, and develops specialists in plant science, animal science, rural administration, agricultural mechanization, irrigation and drainage.

ii) Nautical fishery project: involves training in the field of fishery.

iii) Livestock operations, whether cattle, poultry, rabbits, etc.

2.4.2.7 Port Administration Board and Economic Development of the Atlantic Vertant (JAPDEVA)

This is an important institution since it administers two of the principal ports with greatest cargo volume in the country: the port of Moín and the German Dock in Limón.

It also does important research in the agricultural field seeking to develop products suitable for the area. It has centered its research in cacao and coconut trees, en fish breeding, in duck raising, and in water buffalo breeding, the latter for the purpose of replacing the cattle of the area.

2.4.2.8 University of Costa Rica (UCR)

The University, through the Office of the Vice-Rector for Research, and the Department of Agronomy, carries out teaching and research functions in the agricultural/livestock sector. In addition, other schools, such as the School of Biology and the School of Mechanical Engineering, also contribute to agricultural/livestock research.

In order to develop certain activities, it has specialized research units, such as:

- The Center for Agronomic Research
- The Center for Research in Food Technology
- The Center for Research in Grains and Seed
- The Center for Research in Celular and Molecular Biology
- The "Fabio Baudrit" experimental station (devoted to cultivation and irrigation)
- The "El Alto" Experimental Station (specializing in dairy cattle)

2.4.2.9 National University (UNA)

At this learning center, they train veterinarians, forestal engineers, and marine biologists. In general, its greatest activity has been in professional training and not in research.

2.4.2.10 Center for the Promotion of Exports and Investment (CENPRO)

Its main function is to promote exports, identifying products to be exported and markets.

For this purpose, it must draw up programs aimed at the development of exportable production, giving technical assistance and training to those who carry them out.

Within the field of promoting investment, it must seek agricultural and industrial investment opportunities aimed especially at developing new exportable items or substitution of imports.

It must also gather suitable information on quality standards, incentives, and regulations in effect in export markets, so that domestic products will keep them in mind when they carry out their activities.

2.4.3 Joint Public Enterprises

-Costa Rican Development Corporation (CODESA)

-National Banana Association (ASBANA)

2.4.3.1 Costa Rican Development Corporation

This corporation concentrates to a greater extent on agro-industry through the vertical development of a series of agricultural products.

The subsidiaries that are directly related to agriculture include:

i) "Algodones de Costa Rica, S.A.", which engages in the planting and processing of cotton, in the Guanacaste area.

ii) "Central Azucarera del Tempisque, S.A." produces raw sugar for export and anhydrous alcohol as a fuel

iii) "Corporación para el Desarrollo Agroindustrial Costarricense, S.A.," meets the objectives of the agricultural production program for the increasing of exports of the State institutions. This company has initiated the development of various projects for specific crops for export, both fresh and processed. It acts as a marketing company for agricultural/livestock products, carrying out important exports of melons, pineapples, chayotes, etc.
In addition, it acts as promoter and catalyzer of agro-industrial projects, preparing pre-feasibility studies, and feasibility studies, attract foreign or national investors and at times it remains as a stockholder.

iv) "Acuacultura", is engaged in the production and marketing of fresh water prawn.

Indirectly, other CODESA subsidiaries also render services to agriculture, such as transportation companies (Costa Rica Railways and Tempisque Ferryboat) and the fertilizer production company (FERTICA).

In general, the initial objective of CODESA was to develop this series of projects, which would be sold later to private enterprise so as to be able to develop other projects, but this has not materialized to date.

156

2.4.4 Private Enterprises

-Asociación de Industriales de la Madera

-Asociación de Industrias de la Carne

-Asociación Costarricense de la Industria Alimenticia

-Private banks

-Cámara Nacional de Agricultores

-Cámara Nacional de Bananeros

-Asociación Bananera del Atlántico

-Comisión Consultora de la Industria Alimenticia

-Compañía Bananera de Costa Rica

-Compañía Standard Fruit

-Exproagro

-Federación de Cooperativas Agrícolas de Costa Rica (FEDECOOP)

-Fertilizer manufacturers

-Federations

-Costa Rican Chamber of Cattlemen

-Sugar Cane Growers' Chamber

-Staple Cereal Growers' Chamber

-Agriculture Production Farmers' Cooperatives

-Coffee Growers' Cooperatives

-Agricultural and Multiple Service Cooperatives

-Agricultural Marketing Cooperatives

In general, the objectives of the chambers or associations formed by farmers is to achieve cooperation among members, give technical assistance to them, and promote reduction in production costs by scale purchase of inputs.

2.4.5 Evaluation of the institutional framework

One of the most important facts to be noted in this field is the considerable duplication of functions and fundamental objectives in the State institutions, which results in serious wasting of resources.

At the same time, an essencial activity like technical assistance, an objective which is included in most of the institutions, has not been adequately given by the public institutions in general. The farmers must resort to the assistance given by companies selling inputs and, at other times, less frequent, to the corresponding chambers, which unfortunately do not have enough personnel to take care of all of the members.

As to agricultural/livestock research, the institutional situation is characterized by a multitude of institutions involved in this field, with a lack of effective leadership to determine the central tools of national policy for research in the sector.

Lastly, in regard to private orgdnizations, it is important to mention that the chambers of growers are, in fact, pressure groups which act as such in their search for better prices, fiscal benefits, etc. However, they seldom meet the objectives of technical assistance and cooperation mechanisms for reducing production costs.

3. THE INDUSTRIAL SECTOR: EVOLUTION AND PROSPECTS

3.1. BRIEF DESCRIPTION OF THE INDUSTRIAL SECTOR

3.1.1. THE COUNTRY'S INDUSTRIALIZATION: A GENERAL REVIEW

The link with the external market is undoubtedly one of the factors which has mostly influenced, not only the behavior of the Costa Rican economy but also important political decisions which have shaped the country's productive structure. Once the colonial period was overcome, it was the decided opening of international trade that permitted improvement of the Costa Rican standards of living. The State firmly supported the orientation by firstly encouraging the cultivation of coffee and subsequently the cultivation of bananas, thus forming an agroexporting productive structure based on these two primary products.

One of the high costs involved in the adoption of this development style was the submission of our economy to violent ups and downs caused by the price variations of the mentioned products on the international market. Graph 3.1 clearly shows the presence of this effect during the 1950 decade.

This situation, together with the feeling that the agroexporting plan had lost strength, coupled with the vigor acquired by the Latin American Economic Council's (CEPAL) diagnosis and propossals that were sustained at the end of the first half of the twentieth century, created the conditions for the country to continue the course of industrialization, which is indissolubly associated with the integration of the Central American area.

The Industrial Protection Law of 1959 and participation in the Central American Common Market since 1962, are the guidelines that marked the beginning of a new development style, mainly encouraged by the industrial sector.

The productive structure was gradually readjusted as this economic sector gained importance, the development of which was encouraged and protected by the many instruments provided basically under the Industrial Protection Law and under the Central American Agreement on Fiscal Incentives.

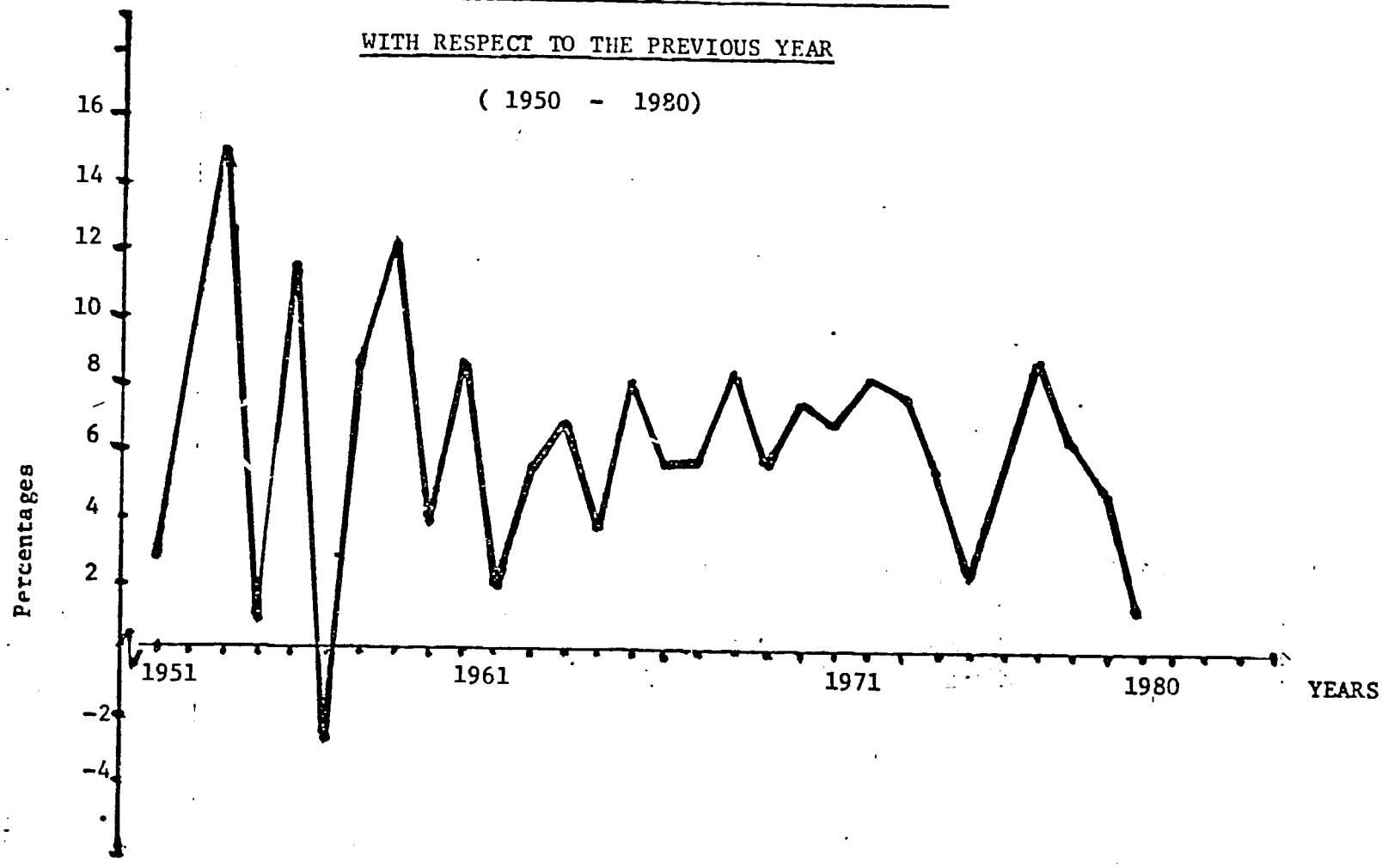
159

GRAPH 3.1

VARIATION RATES OF THE GROSS NATIONAL PRODUCT[1/]

WITH RESPECT TO THE PREVIOUS YEAR

(1950 - 1980)



1/ At purchaser's prices

Source: National Planning Office: Social and Economic Evolution of Costa Rica, 1950 - 1980

Since 1965 and up to 1973, the industrial activity grew at a 9.4% average annual rate, thus establishing an expansion rate that was higher than Latin America's during that same period (8.0%). At the same time, not only did the GDP surpass the growth rate of the previous 10 years, but it also kept a considerably stable behavior (See Graph 3.1).

Notwithstanding these favorable results, a sensible dependency on the external sector was established due to the fact that industrialization was oriented towards substitution of final goods and not extended to substitution of capital and intermediate goods.

Thus, changes in government policy or external factors (increase in oil prices) affecting imports may not only influence the availability of imported final goods but may also directly affect the country's productive capacity.

If we furthermore consider that together with industrialization exports of non-traditional products was kept up and expanded, we will find a picture of the country's economic relations with the external sector permitting to a great extent the understanding of the behaviour of the Costa Rican economy subsequent to 1973.

As a matter of fact, the 1974-1981 period was characterized by a turmoil in the world's economy, especially due to the increase in oil prices. Furthermore, the Central American area, the second market for placement of the industrial product, found itself affected by political disturbances that provoked a larger contraction of the demand for industrial products. Consequently, the Costa Rican economy and particularly the industrial sector, which were oriented by the aforesaid guidelines, firstly reduced their strength and were subsequently hit by a severe crisis.

3.1.2 INDUSTRIAL SECTOR'S ECONOMIC IMPORTANCE.

A quick review of certain indicators will be enough to understand the gravitation of the industrial activity within the Costa Rican economy (See table 3.1).

TABLE 3.1

INDICATORS OF THE INDUSTRIAL SECTOR'S ECONOMIC IMPORTANCE 1/

	1970	1976	1981
VALUE-ADDED	1.192.2 (18.3)	4.072.1 (19.7)	13.064.9 (21.6)
WORKING POPULATION IN INDUSTRIAL SECTOR	69.815 (12.9)	90.294 (14.6)	112.066 (15.4)
WAGE-EARNINGS POPULATION	59.642 (14.5)	73.989 (16.4)	88.050 (16.1)
WAGES	n.a.	1.042 (1.082)	2.349 (2.329)
GROSS FORMATION OF CAPITAL	250.4 (18.7)	794.0 (16.2)	1371.3*** (15.7)
IMPORTS*	133.0 (42.0)	358.7 (46.5)	821.2 (67.8)
EXPORTS*	53.5 (23.1)	185.2 (31.3)	380.3 (36.7)

n.a.: not available

1/ Figures between parentheses show the percentage with respect to the total of the national economy, except in the case of wages where they show the total average.

* Crude oil imports included

** Beef, coffee and sugar excluded

*** 1979 figures.

SOURCE: MINISTRY OF LABOR: NATIONAL SURVEY ON HOUSEHOLDS. EMPLOYMENT AND UNEMPLOYMENT.

CENTRAL BANK OF COSTA RICA: BALANCE OF PAYMENTS and Figures of National Accounts.

During the past five years, the value it has added to the GDP in current terms has oscillated around 19%, surpassing 21% in 1981. This same year it employed an average of 112 thousand persons[1/], meaning a 15% of total employment. If we take into account only the wage-earning population, the percentage of employee absorption is slightly higher. As far as wages are concerned, during the past six years these have been kept below the monthly average paid by the economy, surpassing only the agricultural/livestock sector.[2/] In this respect, we must bear in mind the differences in the sectors' work shifts.

The industrial sector generates yearly an average of 17% of the economy's overall gross investment, made up basically of investments in machinery and equipment. In the 1976-1980 five-year period, industrial exports made up an average of 47% of the total imports, especially due to imports of raw material. In turn, exports of industrial goods during that same period meant around 30% of total exports[3/]. If the respective values are observed one will be able to distinguish as a characteristic trait the secular insufficiency of the industrial sector to supply itself with the foreign exchange required for its imports, which insufficiency has been met by means of external income generated by exports of traditional goods.

3.1.3 INTERNAL STRUCTURE OF THE INDUSTRIAL SECTOR

The strong growth shown by the industrial sector during the 1962/1970 period came together with important changes in its internal structure. Basically, the food, beverage and tobacco industries reduced their shares whereas the chemical, rubber, plastic and milling industries gained relative importance (Tables 3.2 and 3.3 and Graph 3.2). The case of the food industry is understandable if it is taken into account that when the industrialization process started, it was the one that had reached a higher degree of development, so that its subsequent evolution would not be so active as that of the industries in the first stage of development.

1/ Figure for July 1981, considered as an average value.
2/ By the end of 1981, industry's average nominal wages increased considerably, a fact which changed such ratios as of that date.
3/ In 1981 its weight in the country's external accounts increased strongly due to reasons to be analyzed hereinafter.

TABLE 3.2

STRUCTURE OF THE INDUSTRIAL VALUE-ADDED *

(by divisions and groupings according to the S.I.I.C.Code)
1960 - 1980
(In percentages)

S.I.I.C. Code (Standard International Industrial Classification)

	1960		1970		1975		1980	
INDUSTRY TOTAL	100%		100%		100%		100%	
31 Food, beverages, tobacco	60.5	100.0	47.6	100%	44.7	100%	44.5	100%
311/312 Food products	39.3	65.6	31.9	66.9	79.4	65.7	29.7	66.7
313 Beverages	14.5	24.0	10.6	22.8	11.4	25.5	11.8	26.6
314 Tobacco	6.7	11.0	5.1	0.8	3.9	8.8	3.0	6.7
32 Textiles, cloth manufacture, & leather	14.4	100%	12.8	100%	11.8	100%	9.9	100%
321 Textiles	4.7	32.8	5.3	42.8	6.0	50.4	4.1	41.2
322 Wearing apparel	4.6	31.8	4.8	39.0	3.8	32.5	3.8	38.1
323 Leather	1.5	10.2	.6	4.9	0.8	7.2	0.8	8.3
324 Footwear	3.6	35.2	1.6	13.3	1.2	9.9	1.2	12.4
33 Lumber and furniture	9.9	100%	6.8	100%	9.5	100%	6.9	100%
331 Lumber	6.3	64.0	4.2	61.4	6.7	70.5	3.7	54.1
332 Furniture	3.6	36.0	2.6	38.6	2.8	29.5	3.2	45.9
34 Printing and editing paper	2.8	100%	4.8	100%	3.9	100%	7.1	100%
341 Paper and derivatives	0.6	20.2	2.3	47.8	2.0	51.1	2.4	34.2
342 Printing houses	2.2	79.8	2.5	52.2	1.9	48.9	4.7	65.8
35 Chemical, rubber and plastic prod.	5.7	100%	12.9	100%	17.1	100%	16.4	100%
351 Chemical substances	0.6	11.1	1.2	9.7	3.0	21.5	1.9	11.8
352 Other chemical products	3.4	59.7	5.3	40.6	4.8	27.0	5.0	30.3
353 Oil refineries	-	-	1.4	10.6	3.8	22.2	5.0	30.3
354 Derivatives	-	-	.2	1.1	1.0	3.0	0.4	2.4
355 Rubber	1.0	17.1	2.4	19.0	2.1	12.3	1.7	10.6
356 Plastic	0.7	12.1	2.4	19.0	2.4	14.0	2.4	14.6
36 Non-metallic minerals	3.9	100%	5.3	100%	3.7	100%	3.7	100%
361 Clay, earthenware	0.1	2.0	0.3	3.1	0.2	5.0	0.2	4.9
362 Glass	0.4	8.8	0.2	4.1	0.2	5.0	0.4	10.7
369 Other	3.4	89.2	4.8	92.8	3.3	90.0	3.1	84.4
37 Basic metal products	-	-	0.4	100%	0.4	100%	0.5	100%
371 Iron and steel	-	-	0.4	100%	0.4	100%	0.5	100%
372 Non-ferrous	-	-	-					
38 Machinery and equipment, metallic	2.3	100%	9.2	100%	8.5	100%	10.0	100%
381 Metal products	0.5	23.1	3.1	33.5	2.4	27.9	2.2	21.7
382 Machinery, except electric	-	-	2.2	23.7	1.2	13.7	1.0	10.1
383 Electric machinery	-	-	1.7	18.4	2.0	23.9	3.1	20.6
384 Transportation machinery	1.8	76.9	2.2	24.4	2.9	34.5	3.7	37.6
385 Professional equipment	-	-	-	-	-	-	-	-
39 Other industries	0.5	100%	1.0	100%	0.4	100%	1.0	100%
390 Other	0.5	100%	1.0	100%	0.4	100%	1.0	100%

* Beef, coffee and sugar included.

The first column's figures of each year represent the percentages with respect to the total of industry and those of the second column, the percentages with respect to the total of the respective division.

SOURCE: Central Bank of Costa Rica. Industrial Production figures.

TABLE 3.3

VALUE-ADDED STRUCTURE OF INDUSTRIAL PRODUCTION

(By divisions*)
1960 - 1980

(In percentages)

	1960	1970	1975	1980
TOTAL	100.0	100.0	100.0	100.0
31 Food, berages, tobacco	50.1	37.7	37.0	36.6
32 Textiles, Cloth manufacture and leather	18.2	14.7	13.3	11.3
33 Lumber and furniture	12.5	8.0	10.8	7.9
34 Printing and editing paper	3.2	5.7	4.5	8.1
35 Chemical, rubber and plastic prod.	7.1	15.4	19.3	18.7
36 Non-metallic minerals	4.9	6.2	4.2	4.2
37 Basic metallic prod.	-	0.4	0.6	0.5
38 Milling	3.0	10.9	9.7	11.4
39 Other industries	.7	1.0	0.6	1.3

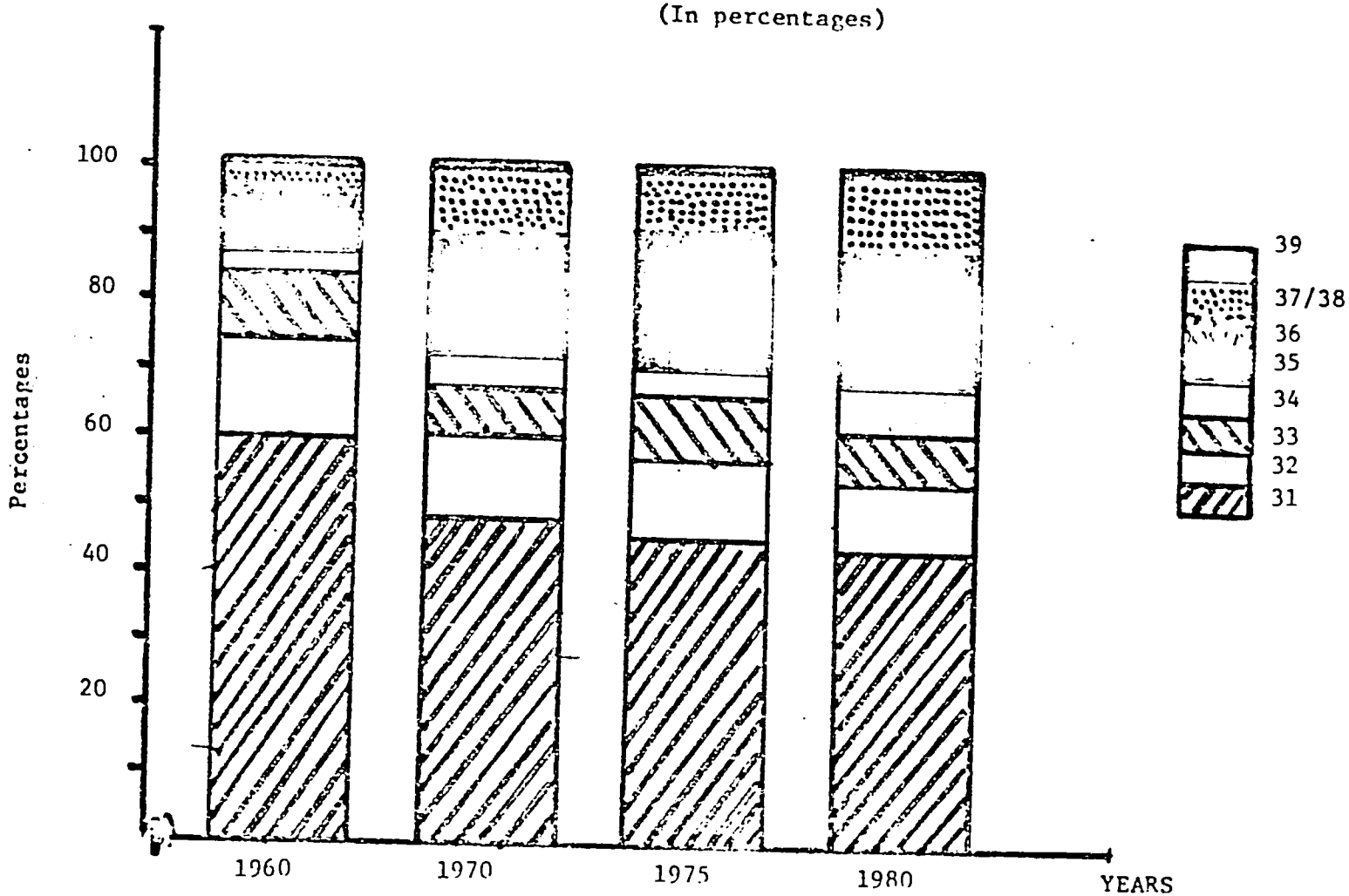
* Beef, coffee and sugar included.

Source: Central Bank of Costa Rica. Industrial Production figures.

GRAPH 3.2

STRUCTURE OF THE INDUSTRIAL VALUE-ADDED (by Divisions)*

(In percentages)



* Includes beef, coffee and sugar

Source: Central Bank of Costa Rica: Industrial Production figures

Furthermore, one of the limitations to its development has been the fact of being devoted exclusively to the reduced domestic market. In the other two cases, the import substitutive policy acted vigorously, thus generating an internal demand that stimulated its growth.

During the past decade, the changes - although less violently - have followed the same trend, also complemented by a loss of gravitation of the Lumber, Textiles, Manufacture and Leather industries. Notwithstanding the above, at present the food, beverage and tobacco industries preserve a definite preponderance, since they add around 45% to the total of the value generated by the industrial sector. The Chemical, Rubber and Plastic; Textiles, Cloth manufacture, Leather; and Milling industries follow in importance, the joint weight of which reach about 46% of the industrial product.

The foregoing comments show that the Costa Rican industrial structure is amply dominated by the consumer-goods producing industries. As a matter of fact, as mentioned previously, the import substitution process has not yet reached the capital and intermediate goods, so that the basic industries do not occupy a privileged position within the Costa Rican industrial structure. As happens in most of the small Latin American countries, among the exceptions to this generality, we find the production of oil derivatives (owned by the State) and the cement industry.1/

1/ One of the main ways to protect the final consumer goods substitutive industry has been tax exemption on the imports of raw material and capital goods, which obviously goes against the formation of substitutive industries of these latter goods. Therefore, to stimulate the capital and intermediate goods producing industry would imply reducing the protection that has been granted to the final goods substitutive industry.

3.2. RECENT EVOLUTION AND PRESENT SITUATION

3.2.1 CONDITIONS OF INDUSTRIAL PRODUCTION.

3.2.1.1 PRODUCTION EVOLUTION 1977-1981

i) General Evolution

The excellent coffee prices obtained in international markets during 1976-1977 brought about a strong pressure by internal demand that made possible reactivating the Costa Rican economy. The most favored goods producing sector was the manufacturing industry, the expansion of which reached a high 16% rate in 1977 (Table 3.4).

During 1978 the economy's sterilization measures, the drop in coffee prices and the increase of oil prices relieved the demand pressures, thus reducing the industrial sector's strength, especially as of the second semester of 1978.

After 1979 the manufacturing industry started an intense disaccelaration phase (in 1980 there was a slight increase) which led to a sensible drop of industrial production in 1981. In 1981, for the first time since the country's industrialization process started, a negative (-4.6) rate of change of the industrial product was registered, which is an obvious sign of the magnitude of the crisis national industry is suffering at present.

The industries most affected during the past three years are: the food, beverage, tobacco; milling, non-metallic industries whilst the least affected have been: the textiles, manufacture, leather; chemical, rubber and plastic industries.

The picture just described is based on figures which exclude coffee mills, beef slaughtering plants and sugar mills. Upon taking into account these establishments (Table 3.5) the industrial expansion of 1977 (13.4) is diminished and disacceleration of 1979-1980 is intensified.

TABLE 3-4

VARIATION OF INDUSTRY'S PRODUCTION VOLUME

(Variations with respect to the same periods the previous year)

	1977		1978		1979		1980		1981	
	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR (1)
TOTAL	14.4	15.9	12.2	9.6	3.9	3.7	5.1	5.5	-2.6	-4.6
31 Food, beverages, tobacco	11.8	13.7	13.4	9.6	5.4	6.3	1.3	- .6	-5.0	-3.6
32 Textiles, cloth manufacture and leather	18.9	18.5	7.4	3.6	-2.9	-4.5	0.8	4.9	3.4	1.5
33 Lumber and furniture	-0.8	-0.8	-10.2	-2.6	4.5	2.7	16.0	11.6	-4.2	-4.6
34 Printing and editing paper	20.9	22.1	17.8	13.7	7.4	12.4	19.1	21.8	7.5	-3.1
35 Chemical, rubber & plastic prod.	14.9	17.7	17.3	15.5	3.1	0.7	7.5	14.0	5.1	0.2
36 Non-metallic minerals	36.2	25.5	7.2	8.5	6.8	6.7	14.9	2.2	-19.2	-18.7
37/38 Milling	16.5	23.6	22.8	15.4	7.2	7.2	0.8	0.8	-12.5	-19.5
39 Other industries	-0.3	-0.3	-2.1	-9.2	-26.8	-26.9	4.6	14.0	7.3	-3.9

(1) Fourth quarter estimated

Source: Social and Economic Research Institute. Survey on industrial status.

TABLE 3.5

EVOLUTION OF INDUSTRY INCLUDING BEEF, COFFEE AND SUGAR

(1976-1981)

(Variation with respect to the same period of the previous year)

		1977		1978		1979		1980		1981 (1)	
		I SEM	YEAR	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR
INDUSTRY TOTAL		11.2	13.4	11.3	9.6	1.9	3.1	5.1	3.7	2.8	-0.6
3.1	Food, beverages and tobacco	6.5	9.2	10.8	11.5	-0.2	4.1	1.5	-3.[illegible]	7.5	3.8
3.11/12	Food products	0.5	3.5	7.6	9.9	-4.1	2.5	6.3	0.0	15.6	7.0

(1) Fourth quarter estimated

Source: Economics Research Institute. Survey on Industrial Status.

Furthermore, the strong growth of coffee and beef production makes the industrial product drop of 1981 more light (-0.6); however, it must be taken into account that said increase in coffee production took place when the international prices had dropped considerably; so that the attenuation of the drop is not indicative of a more favorable situation for the country.

Among the causes which have led to the disacceleration of the industrial activity we can distinguish the difficulties for the interchange with Central America, the continuous increase in oil prices, the drop in coffee prices and the uncertainty and discouragement created by the economic policy of the past three years, especially in exchange and credit matters.

ii) Evolution by industrial divisions

Food, beverages and tobacco

The growth rate of production generated by this division has been dropping since 1978 (Table 3.6), until assuming negative figures (-0.6 and -3.6, respectively) in the past two years. In spite of the foregoing, the grouping of food products showed in 1979 and 1980 a favorable behavior, which behavior was furthered in 1979 by significant increments in the manufacturing of cocoa, chocolate and candies and in the canning and preserving of fruits and vegetables. In 1980 the expansion was due to a strong growth in the manufacturing of vegetable oils and fats and dairy products. The growth in the manufacture of edible vegetable oils and fats was originated by a reduction of consumer prices in the international market and by the substitution of oil imports from Nicaragua, whose production had dropped during the mentioned year. The food industry's bonanza ended in 1981 since in this year its production decreased by 4%.

167

TABLE 3.6

VARIATION OF INDUSTRY'S PRODUCTION VOLUME (1)

(Variations with respect to the same periods the previous year)

	1977		1978		1979		1980		1981	
	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR	I SEM	YEAR
INDUSTRY TOTAL (2)	14.4	15.9	12.2	9.6	3.9	3.7	5.1	5.5	-2.6	-4.6
31 Food, beverages, tobacco (2)	11.8	13.7	13.4	9.6	5.4	6.3	1.3	-0.6	-5.0	-3.6
311/12 Food products (2)	3.1	6.9	9.3	4.4	3.7	6.6	6.3	9.6	-3.3	-4.9
313 Beverages	21.8	21.1	18.3	16.1	9.1	7.8	-2.1	-9.6	-8.1	-1.9
314 Tobacco	20.5	22.7	14.5	8.7	-2.1	0.0	-5.6	-7.2	-2.7	-4.1
32 Textiles, cloth/manufacture, leather	18.9	18.5	7.4	3.6	-2.9	-4.7	0.8	4.9	3.4	1.5
321 Textiles	19.4	18.8	-1.8	-7.0	-12.7	-15.4	-6.6	1.4	4.3	4.8
322 Manufacture	25.1	21.2	19.0	18.9	18.6	15.8	3.5	3.2	-3.9	-6.1
323/24 Leather	10.5	14.4	23.5	17.9	-5.2	-3.8	13.8	15.0	14,2	8.5
33 Lumber and furniture	-0.8	-0.8	-10.2	-2.6	4.5	2.7	16.0	11.6	-4.2	-4.6
34 Printing and editing paper	20.9	22.1	17.8	13.7	7.4	12.4	19.1	21.8	7.5	-3.1
35 Chemical, rubber & plastic prod.	14.9	17.7	17.3	15.5	3.1	0.7	7.5	14.0	5.1	0.2
351 Chemical substances	27.9	34.1	16.5	28.7	-12.6	-25.3	-13.4	-0.5	10.7	13.2
352 Other chemical substances	4.8	2.1	12.4	8.6	9.9	17.2	20.0	23.2	-8.0	-17.4
353 Oil refining	2.8	11.2	22.2	14.9	-0.5	-2.4	7.6	23.6	24.4	19.1
355 Rubber	18.3	13.1	3.6	5.8	-2.7	-0.1	6.2	5.0	-3.9	-10.7
356 Plastic	31.9	38.7	31.2	17.5	2.8	12.6	13.4	6.7	2.7	-2.3
36 Non-metallic minerals	36.2	25.5	7.2	8.5	6.8	6.7	14.9	2.2	-19.4	-18.7
37/38 Milling	16.5	23.6	22.8	15.4	7.2	7.2	0.8	0.8	-12.5	-19.5
381 Metal products	19.8	23.3	11.6	4.0	-5.8	-5.4	8.7	4.9	8.7	-8.0
383 Machinery	2.4	29.7	20.1	12.7	17.0	14.8	-3.9	-2.0	-19.7	-19.3
384 Transportation material	10.0	12.8	22.8	19.0	3.4	4.3	0.7	0.5	-30.6	-35.1
39 Other industries	-0.3	-0.3	-2.1	-9.2	-26.8	-26.9	4.6	14.0	7.3	-3.9

(1) Fourth quarter 1981, estimated; corrected figures (2) Beef, coffee and sugar excluded.

Source: Economics Research Institute
Survey on Industrial Status.

At the same time, the groupings of tobacco and beverages reduced their activity levels since 1978 and experienced an acute contraction in 1980. The following year, in spite of the fact that production of both groupings continued decreasing, manufacture of beverages had a slight recovery which originated in the growth of production of alcoholic beverages stimulated by the furthering of the substitutive process of imports of this product.

Textiles, cloth manufacture and leather

After showing a high variation rate in 1977 (18.5%), this division suddendly reduced its strength. Of the following four years (1978-1981), 1979 stands out in that its production suffered a severe drop (-4.7) and 1981, in that its production increased (1,5%), just the opposite of what had occurred in the remaining industrial activities.

When analyzing the division's components it can be noted that the manufacture of textiles faced a difficult situation in 1978 and 1979. However, the precarious situation of the Salvadorian industry as well as the increase in price of the rawmaterial imported by the national manufacturing industry, were factors that favored the recovery of textile production as of 1980.

Manufacture of wearing apparel kept up a very strong behavior up to 1979, growing at rates exceeding 15%. Notwithstanding, in the past two years it entered into a stage of open contraction, placing it at present in the position of the most affected in this industrial division.

In turn, manufacture of footwear and leather products, which had suffered a considerable drop in 1979, recovered noticeably in the following two years due to the presence of new lines of footwear.

Lumber, wood products and furniture

This activity was the one which least responded to the 1977 boom, since during that year its product decreased instead of increasing. On the other hand, after facing a very difficult situation in 1978, it started a recovery phase which lasted till 1980.

During the past year (1981) the product generated by this division was suddenly reduced, due to the crisis of the building or construction industry, worsened since the second semester of 1980, thus leading to a considerable reduction in the sawmill activities.

Paper products, printing and editing houses

Throughout 1977-1980 this division showed the most active behavior of the industrial sector. This conduct was sustained by the grouping of printing and editing houses and related industries, which showed an outstanding strength. The strong growth reached in 1980 was caused by an extraordinary demand for books which would be used in the alphabetizing campaign in Nicaragua. Notwithstanding, in this same year it was disfavorably affected by a sensible drop in the production of cardboard boxes, as a result of a disaster that occurred in one of the most important factories.

In 1981 printing and editing houses reduced their production by 14%, contrary to the forecasts made by entrepreneurs devoted to that activity, who expected that the election campaign would bring about a great demand of their product. With this result and in spite of the fact that the production of cardboard boxes was recovered, the division suffered a strong contraction in 1981.

Chemical, rubber and plastic products

The production of chemical, rubber and plastic products came to a standstill in 1979, after having kept up a very active behavior during the past two years. The stagnation was due to a drastic drop in the manufacturing of fertilizers and pesticides and to reductions in the production of oil derivatives and rubber products.

170

In 1980 the division's production reached an outstanding level. This was due to a vigorous expansion of the group manufacturing other chemical products and to a strong increment in the production of oil derivatives. The largest production of oil derivatives came about at the same time the imports of and demand for diesel and gasoline contracted, and consequently a process of substitution of fuel imports took place.

During 1981 this process continued occurring and the production of fertilizers and pesticides grew considerably. However, manufacture of other chemical products, as well as of rubber and plastic products suffered sensible drops, all of which resulted in stagnation of the product generated by the division at the end of the year.

Non-metallic minerals

In spite of the fact that this division's production kept on growing during the 1977-1980 period, year by year its expansion rate was constantly slowing down. As of the second semester of 1980, the delicate situation of the construction industry started to seriously affect its activity levels, leading it to a violent contraction in 1981. As a matter of fact, this division experienced at the end of last year one of the most worrying drops (-19%) of the industrial sector, the most affected activity being the manufacturing of concrete blocks and concrete products.

Milling

After having been one of the most favored divisions by the expansion of demand in 1977, its levels of activity started to drop and led to a production standstill in 1980 and to the most severe drop (-19%) experienced by this industry in 1981 (By divisions).

The grouping of metallic products which had achieved recovery in 1980 after an adverse year, internally reduced its production in 1981. This was caused especially by the strong decrease in the manufacturing of furniture and electric appliances.

171

The construction of machinery and electric appliances suddenly retracted as of 1980, due to noticeable drops in the assembly of radio and television equipment and apparatuses and of domestic appliances and accessories.

In turn, the grouping corresponding to transportation material which had an exceptional behavior in 1978, fell into a recessive stage since 1979, basically caused by reductions in the assembly of automative vehicles. Initially it was a result of restrictive measures that were adopted to contract the demand for vehicles and of government action tending to close the assembly plants, as part of a policy to reduce the protection granted to industry. At present and since last year this activity has practically come to a standstill, thus contributing in making the transportation group the most contracted activity in 1981, as compared to the rest of the industries.

Other manufacturing industries

This division is made up of very dissimilar activities and has a small weight within the industrial value-added structure. As far as its evolution is concerned it must be mentioned that during the 1977-1979 period it faced a truly adverse situation, which is evidenced by repeated and increasingly negative rates of change in its production volume throughout these years. In 1980 it achieved a satisfactory recovery; however, the difficult economic situation of 1981 also adversely affected this activity, bringing about the contraction of its production.

3.2.1.2 UTILIZATION OF INSTALLED CAPACITY

A study that was recently published by the Economics Research Institute gives a detailed analysis on the use of installed capacity by the industrial sector in the first semester of 1981 1/. One of the interesting aspects of this analysis is that it uses a concept of utilization of installed capacity, leaving in the hands of the entrepreneur the decision on the number of shifts to be worked in his factory in optimum circumstances. This concept

1/ Rodríguez, Ennio and Ulate A. Utilization of installed capacity and license contracts: restrictions or possibilities for industrial reactivation. Economics Research Institute, 1982.

172

contrasts with the one traditionally applied, the basic assumption of which is that all companies - in order to make optimum use of their capacity - should work three shifts at 100%, which supposition, as is known, is frequently not adjusted to reality and tends to overevaluate subutilization.

According to this last concept (work in three shifts), during the first semester of 1981 the industrial sector as an average used 40% of its capacity (Table 3.7). The divisions of Textiles, Cloth manufacture and leather and of Milling stand out below this level, even though just the average of this latter division turned out to be significantly different from the industrial average. By type of product, the factories of durable consumer goods used 26% of their capacity, as to 49% of the factories of intermediate goods and the factories of non-durable consumer goods used 37% of their capacity. Upon applying the entrepreneurial judgment, the average utilization of the industrial capacity is raised to 66%. The quite obvious difference between the two definitions is the result of the fact that due to technical or profitability reasons or simply due to the respective judgment. the number of optimum shifts according to the entrepreneur's appreciation (1.9) does not cover the 24 hours of the day.

As far as the profitability reasons are concerned, one must take into account that work after 7 pm. and up to six o'clock am. must be paid as a special shift, with a fifty percent surcharge. This factor could be a rather serious restriction to the relatively labor-intensive companies, with respect to the rest of the industry; for example, the textile and manufacturing industry.

The analysis by industrial activity shows that the divisions of Textiles, Cloth manufacture and leather (58.3), Non-metallic minerals (46.5) and Other manufacturing industries were located below the average of the entrepreneurial definition, although statistically only the two first values are significantly different from the average.

An interesting aspect worthwhile mentioning is that the extent of association that was found by the investigators between utilization of

TABLE 3.7

UTILIZATION OF INSTALLED CAPACITY BY INDUSTRIAL DIVISIONS IN 1981

(In percentages)

	DIVISION	THEORETICAL DEFINITION 1/			ENTREPRENEURIAL DEFINITION 2/		
		FIRST SEMESTER	SECOND 3/ SEMESTER	ANNUAL AVERAGE	FIRST SEMESTER	SECOND 3/ SEMESTER	ANNUAL AVERAGE
	SAMPLE TOTAL	40.2	39.1	39.6	66.2	64.4	65.3
31	Food, beverages, tobacco	45.3	44.7	45.0	69.9	69.0	69.4
32	Textiles, cloth manufacture, leather	35.5	36.6	36.0	58.3	60.1	59.2
33	Lumber, wood products and furniture	36.6	31.4	34.0	66.2	56.8	61.5
34	Printing and editing paper products	44.9	48.0	46.4	66.2	70.8	68.5
35	Chemical, rubber & plastic products	45.6	43.0	44.3	74.5	70.2	72.3
36	Non-metallic minerals	37.3	44.7	41.0	46.5	55.7	51.1
37/38	Milling	31.1	26.0	28.5	64.3	53.7	59.0
39	Other manufacturing industries	37.5	20.8	29.1	58.7	32.6	45.6

1/ Utilization of installed capacity supposing that the optimum use implies three shift working 100%

2/ Utilization of installed capacity supposing that the optimum use implies a number of shifts subject to the entrepreneur's judgment, working 100%

3/ Preliminary

SOURCE: Economics Research Institute. Utilization of installed capacity and license contracts.

installed capacity, production value and number of employees, even though positive is almost null. If we take these last two variables as size indicators, the foregoing would imply that the relation between the company's dimension and the utilization of installed capacity is very weak.

Information was also gathered on this topic 1/ at the end of 1981 in the industrial status survey that was carried out. The preliminary figures show that during the year's second semester the overall average of capacity utilization taking into account the three shifts, was not altered significantly, staying at 39%, but the utilization by divisions did suffer important changes. The division of Other industries amply reduced the use of its capacity and the Milling industry did so to a lesser extent. The Lumber, wood products and non-metallic minerals divisions showed inverse trends.

Under the assumption that during the second semester the entrepreneurs' opinion on the ideal number of shifts had not changed, the average of capacity utilization according to the entrepreneurial definition was 64%. Among divisions the trends are the same ones pointed out in the case of the foregoing definition.

Finally, the average annual industrial capacity utilization according to each definition were 39.6% and 65.3% in the same order mentioned. According to the theoretical definition, the divisions having the highest sub-utilization of capacity were the Milling and Other manufacturing industries. This latter division is also placed in that position according to the entrepreneurial definition, as well as the non-metallic minerals division. 2/

It is worthwhile making a final comment. In conformance with the study conducted by Rodriguez and Ulate, the number of shifts worked during the first semester was as an average 1.6%, which figure comes very near to the one considered to be optimum by the entrepreneurs (1.9). This implies that a reactivation of the industrial sector shall be based not on a longer work period of industrial plants, but rather on a more intensive use of same while

1/ The information supplied by the study of Rodriguez and Ulate also comes from the sample of the Industrial Status Survey.

2/ Upon using this definition the sub-utilization evidence in the Milling group disappears.

in operation, which could establish more restrictive limits to the absorption of employment by the industry than in the opposite case.

3.2.1.3 IMPORTED COMPONENT OF PRODUCTION COST

Approximately 44% of the industrial production cost had an imported origin in 1981 (Table 3.8), as pointed out in a recent work by the Economics Research Institute, based on information of the Industrial Status Survey 1/. This percentage, which excludes the beef slaughtering houses, coffee and sugar mills, could be higher since the manner in which the information was gathered did not take into account machinery depreciation, the origin of which is also mostly imported.

Among the divisions the following stand out: Food, Beverages and Tobacco, and Non-metallic minerals which have the lowest imported components (28% and 23.0%, respectively); whilst the highest imported components correspond to Chemical, rubber and plastic products (70%), Milling (68%) and Paper, printing and editing (68%).

The inclusion of the aforesaid agroindustrial establishments reduces industry's average imported component to 39% and that of the division of Food, Beverages and Tobacco to 22%.

The figures of Table 3.9 also show the previous situation for a more extended period. In accordance to these figures the imported component of industrial production, including the traditional agroindustry, passed from 22% in 1976 to 42% in 1981 2/. It is worthwhile pointing out that this component's gravitation has basically increased in the past two years, as a result of the world inflation and mainly, of the exchange rate increase.

1/ New Indicators of Costa Rican Industrial Activity in 1981. Economics Research Institute, 1982.

2/ Again, imported machinery depreciation has been excluded, thus implying that these percentages are to be slightly higher.

TABLE 3.8

IMPORTED COMPONENT OF THE INDUSTRIAL SECTOR'S

PRODUCTION COST IN 1981 BY DIVISION

(In percentages)

	DIVISION	IMPORTED COMPONENT	
	TOTAL	43.9*	38.8**
31	Food, beverages and tobacco	27.6*	21.9**
32	Textiles, cloth manufacture & leather	46.4	
33	Lumber, wood products & furniture	31.4	
34	Printing and editing paper products	67.6	
35	Chemical, rubber & plastic products	70.3	
36	Non-metallic minerals	23.2	
37/38	Milling	67.8	
39	Other manufacturing industries	61.3	

* Beef, coffee and sugar excluded

** Beef, coffee and sugar included

SOURCE: Economics Research Institue: New indicators of the Costa Rican industrial activity during 1981.

An important aspect to be underlined is that even though the substantial increase of imported inputs that took place in 1981 did not bring about a proportionally equivalent increase of the production value, the exploitation rate, made up of the industrial sector's profits and transfers, was kept slightly above 8%[1/], thus showing a process of revenue concentration in the hands of the holders of capital and a deterioration of the wage-earners' situation, which is, as a matter of fact, a typical phenomenum of inflation.[2/]

TABLE 3-9

IMPORTED COMPONENT OF THE INDUSTRIAL SECTOR'S PRODUCTION COST, 1976-1981

(In millions of colones and percentages)

	1976	1977	1978	1979	1980	1981
Gross production value	12.270.7	16.032.3	17.515.6	19.640.4	23.568.3	40.664.7[1/]
Exploitation surplus	1.044.3	1.312.9	1.396.0	1.659.8	1.891.1	3.473.3[2/]
Production costs	11.226.4	14.719.4	16.119.6	17.980.6	21.677.2	37.191.4
Raw material import (3)	2,508.9	3,238.8	3,506.6	4,381.2	7,859.6	15,765.4
% of imported cost	22.3	22.0	21.8	24.4	36.3	42.4

(1) preliminary figures
(2) our own estimate based on figures of the Central Bank of Costa Rica
(3) includes crude oil

Source: Central Bank of Costa Rica. Industrial production and balance of payments figures.

1/ We are defining exploitation rate as the exploitation surplus/production value ratio. The 1976-1980 average exploitation rate was 8.2% and its lower level was 8%.

2/ To be exact, as will be seen hereinafter, the average wages of the industrial sector increased 24% in 1981, whilst it is estimated that the operating surplus increased 84%.

3.2.1.4 BRIEF COMMENTS ON THE INDUSTRIAL SECTOR'S EFFICIENCY

Through the Survey on Industrial Status[1/] we were able to find out that the industrial enterprises tried hard to improve the productivity of their work. This effort resulted in personnel reductions surpassing those that took place in production during the first semester of 1981.

It seems that this process occurred mainly in the Lumber and Milling industries and even though the respective figures show that it went on throughout the year, the effort was indeed concentrated in the first semester. (Table 3.10).

It is worthwhile mentioning that over 40% of the cases that were interviewed were successful in achieving the aforesaid increases thus improving their work's organization, whilst 25% did so by intensifying their work rythm. Furthermore, most of the displaced workers formed part of the direct labor force.

Thus we can appreciate how national industry, forced by the crisis, has been concerned about making its production processes more efficient.

TABLE 3.10

ENTERPRISES THAT INCREASED THEIR PRODUCTIVITY BY

REDUCING PERSONNEL IN 1981

(In percentages according to number of answers)

	Divisions	I Semester	II Semester
3	INDUSTRY TOTAL	37.5	32.1
31	Food, beverages and tobacco	33.4	35.7
32	Textiles, manufacture and leather	39.4	36.5
33	Lumber and furniture	77.8	55.6
34	Paper, printing and editing houses	28.6	28.6
35	Chemical, rubber and plastic products	40.0	31.5
36	Non-metallic minerals	57.2	28.6
37/38	Milling	44.5	33.4
39	Other manufacturing industries	25.0	0.0

SOURCE: Economics Research Institute of the University of Costa Rica (IICE)

1/ New indicators...Op. Cit.

3.2.2 MARKET CONDITIONS FOR INDUSTRIAL PRODUCTS.

3.2.2.1 STRUCTURE OF DESTINATION OF INDUSTRIAL SALES

As has been mentioned in the foregoing pages, Costa Rican industry is basically aimed to supply the national market. In 1980 this market absorbed 79% of the physical volume of industrial production whilst the Central American market and the rest of the world absorbed 15% and 6% respectively (Table 3.11) 1/.

The strong devaluation that took place in 1981 was not enough to substantially modify this distribution, since production was divided among aforementioned three markets by 77%, 15% and 8%, respectively. However, this distribution showed a slight tendency to expand exports to the rest of the world.

The divisions of Food, beverages and tobacco, and of Non-metallic Minerals are almost exclusively devoted to the internal market, in which they placed over 90% of the production for both years. At the same time, Textiles, Cloth/manufacture and leather exported approximately 50% of their production, thus classifying it as the division with the most external opening.

Taking into account the coffee, beef and sugar processing plants reduces the importance of the national market and increases that of the rest of the world, both in the case of industry and of the food, beverage and tobacco division.

Of the preceding comments, two aspects should be underlined. First, we have seen that national agroindustry has been traditionally oriented towards the internal market, so that even if it is one of the activities having the greatest exporting potential, one would expect that it would have little experience in handling foreign commercial relations. An export encouraging program could face this restriction in a short term. Secondly, the aid which the initiative of the countries of the Caribbean Basin have presented to the countries of the area as far as reduction of restrictions to the entrance of their products is concerned, does not contemplate the textiles and Cloth/manufacturing industries, which precisely in the case of Costa Rica is one which would apparently have the greatest capacity to respond with the speed

1/ New indicators... Op. Cit.

TABLE 3.11

DESTINATION OF INDUSTRIAL SALES

1980-1981 1/

(In percentages)

	DIVISIONS	1980 DM	1980 CM &	1980 RW	1981 DM	1981 CM & P	1981 RW
3.	INDUSTRY TOTAL	79.0	15.0	6.0	77.0	15.0	8.0
31	Food, beverages, tobacco	94.0	4.0	2.0	94.0	4.0	2.0
32	Textiles, cloth manufacture & leather	52.0	25.0	23.0	48.0	26.0	26.0
33	Lumber and furniture	59.0	23.0	18.0	59.0	19.0	22.0
34	Paper, printing and editing houses	79.0	18.0	3.0	79.0	13.0	3.0
35	Chemical, rubber & plastic products	71.0	25.0	4.0	66.0	27.0	7.0
36	Non-metallic minerals	99.0	1.0	0.0	93.0	3.0	4.0
37/38	Milling	73.0	24.0	3.0	72.0	25.0	3.0
39	Other industries	68.0	32.0	0.0	69.0	31.0	0.0

1/ Beef, coffee and sugar excluded.

DM= Domestic Market.

CM & P = Central American Market and Panama.

RW = Rest of the World

SOURCE: Economics Research Institute of the University of Costa Rica (IICE).

the country requires, in the event of such a facility.

3.2.2.2 BEHAVIOUR OF THE DEMAND FOR INDUSTRIAL PRODUCTS IN THE SECOND SEMESTER OF 1981

During the second semester of 1981 the demand directed towards the industrial sector decreased by 6% 1/ as regards the same period of the previous year (Table 3.12). The strongest contraction occured in the internal market (-7%).

All divisions, except food, beverages and tobacco, experienced a drop in the total volume of orders with respect to the previous year, but the most affected divisions were Non-metallic Minerals and Milling, which is congruent with production's behavior.

Food, beverages and tobacco, and Textiles, manufacture and leather faced a greater internal demand as a result of a reinforcement of the process of substitutive imports caused by devaluation and, probably, by advance purchases of this type of goods for the purpose of protection against inflation. As a matter of fact, demand increased basically in the groupings of food, alcoholic beverages, textiles and footwear.

3.2.2.3 EVOLUTION OF THE PRICES OF INDUSTRIAL GOODS IN 1981

The speed of the inflationary process the Costa Rica Economy is submitted to can be appreciated as far as industry is concerned by observing the figures under Table 3.13.

In 1981 the prices of industrial products grew as an average by 78%, which is higher than the average growth of wholesale prices (59%) and of consumer prices (37%). The galloping characteristics of the process are reflected in a price increase during the second semester of 1981 with respect to the same of the previous year (92%), which is much higher than the one shown during the first semester (62%).

1/ New indicators... Op. Cit.

2/ It must be remarked that tese figures are refered to the anual average growth and not to the december-december change.

TABLE 3.12

EVOLUTION OF DEMAND DIRECTED TOWARDS THE INDUSTRIAL SECTOR DURING THE SECOND SEMESTER OF 1981 1/

(Percentage variations with respect to the same period in previous year)

	DIVISION	OVERALL DEMAND	DOMESTIC DEMAND	FOREIGN DEMAND
	TOTAL	-5.7	-7.1	-1.1
31	Food, beverages, tobacco	5.2	5.1	6.3
32	Textiles, cloth manufacture & leather	-0.4	5.3	-5.7
33	Lumber, wood products and furniture	-7.5	-8.1	-6.6
34	Paper products, printing and editing houses	-12.9	-16.0	-0.6
35	Chemical, rubber and plastic products	-8.4	-11.9	-1.5
36	Non-metallic minerals	-24.4	-25.7	-0.7
37/38	Milling	-37.5	-45.5	-16.9
39	Other manufacturing industries	-11.9	-5.4	-26.5

1/ Beef, coffee and sugar excluded.

SOURCE: Economics Research Institute of the University of Costa Rica (IICE).

TABLE 3.13

SEMESTRAL EVOLUTION OF PRICES OF THE MANUFACTURED PRODUCTS

(Price index variations of industrial products)

	DIVISIONS	1980 Semesters I	1980 Semesters II	1981 Semesters I	1981 Semesters II	ANNUAL I/I 1/	ANNUAL II/II 2/	Variation 1981/198
3	INDUSTRY TOTAL*	13.6	18.0	37.1	40.2	61.8	92.2	78.2
31	Food, beverages, tobacco	14.2	13.3	21.5	30.3	37.6	58.4	48.7
32	Textiles, cloth manufacture, leather	12.2	18.5	39.1	46.3	64.9	103.6	85.9
33	Lumber and wood products	9.9	11.6	38.2	32.6	54.2	83.3	69.5
34	Paper products, printing and editing houses	15.9	14.0	30.2	69.7	48.4	120.9	87.0
35	Chemical, rubber and plastic products	18.5	26.0	50.5	43.4	89.7	115.8	104.3
36	Non-metallic minerals	9.2	7.2	63.4	22.8	75.2	100.6	88.3
37/38	Milling	8.4	32.3	57.8	57.0	108.8	141.5	127.4
39	Other manufacturing industries	12.1	19.2	30.1	34.5	55.0	75.0	65.9

*/ Beef, coffee and sugar excluded.

1/ I Semester 1981/I Semester 1980.

2/ II Semester 1981/II Semester 1980.

SOURCE: Economics Research Institute of the University of Costa Rica (IICE).

The products which had the highest price increases in 1981 were those of the Milling division (127%) followed by the chemical, rubber and plastic products (104%). On the contrary, the products of the food, beverages and tobacco division had a price increase lower than average (49%).

3.2.3. EMPLOYMENT AND WAGES IN THE INDUSTRIAL SECTOR

3.2.3.1 EMPLOYMENT

The strong expansion of industrial production in 1977 was followed by a vigorous growth of employment generated by the manufacturing sector during that year. (Tables 3.14 and 3.15). From that moment on its absorption capacity has been noticeably reduced.

Subsequent to the worsening of the industrial sector's crisis, its absorption not only dropped but also laid off workers starting around the end of 1980 until the middle of 1981, taking industry's occupation close to the levels reached in November 1978 1/. That behavior, shown in the figures of the Household Survey was strenghtened by the Industrial Status Survey, it being determined that the most critical period was the first semester of 1981. According to the data of the Household Survey, at the end of 1981 industrial employment reached a high and unusual level, which is apparently contradictory on account of the drop of the industrial product during the second semester of 1981. Aside from possible distortions of the statistical type, the explanation could lie in the greater activity of the traditional agroindustry.

In spite of the above comments, due to the fact that the country's overall occupation has followed a trend which is not very different from that of the industrial sector, it has been able to keep generating around one seventh of the total available employments in the country for the past six years.

On the other hand, close to three fourths of the country's total employed population has the category of wage-earners and of these, approximately one sixth is contracted by the industrial sector.

1/ Between July 1980 and July 1981 about 6,000 workers were laid off in the industrial sector.

TABLE 3.14

COUNTRY'S AND INDUSTRIAL SECTOR'S WORKING AND WAGE-EARNING POPULATION

(1976-1982)

	1976	1977	1978	1979	1980	1981	1982
OVERAL WORKING POPULATION							
MARCH	-	636.753	675.553	697.556	722.398	719.662	746.492
JULY	619.477	658.978	696.010	718.809	724.708	726.227	-
NOVEMBER	685.505	716.361	767.059	760.680	767.120	808.763	-
SECTOR'S WORKING POPULATION							
MARCH	-	101.000	103.957	109.259	119.431	113.012	121.204
JULY	90.451	104.129	105.475	117.027	177.860	112.066	-
NOVEMBER	100.208	108.778	110.948	118.563	117.193	122.652	-
TOTAL WAGE-EARNING POPULATION							
MARCH	-	455.942	492.441	517.310	529.292	535.137	554.958
JULY	450.045	476.714	508.982	523.361	546.116	545.574	-
NOVEMBER	496.851	526.230	574.181*	568.900	582.635	606.708	-
SECTOR'S WAGE-EARNING POPULATION							
MARCH	-	83.090	83.972	88.124	96.166	89.288	93.203
JULY	73.989	83.880	83.439	90.675	95.863	88.050	-
NOVEMBER	79.485	86.997	87.712*	96.039	93.197	95.388	-
RELATIVE FIGURES							
PORCENTAGE OF TOTAL WAGE-EARNING POPULATION WITH RESPECT TO TOTAL WORKING POPULATION							
MARCH	-	71.6	72.9	74.2	73.3	74.4	-
JULY	72.6	72.3	73.1	72.8	75.4	73.7	-
NOVEMBER	72.5	73.5	74.8	74.8	75.9	75.0	-
SECTOR'S PERCENTAGE OF THE WAGE-EARNING POPULATION WITH RESPECT TO THE SECTOR'S WORKING POPULATION							
MARCH	-	82.3	80.8	80.7	80.5	79.0	-
JULY	81.8	80.3	79.1	77.5	81.3	78.6	-
NOVEMBER	79.3	80.0	79.1	81.0	79.6	77.8	-
INDUSTRY'S SHARE IN WORKING POPULATION							
MARCH	-	15.9	15.4	15.7	16.5	15.7	16.2
JULY	14.6	15.8	15.2	16.3	16.3	15.4	-
NOVEMBER	14.6	15.2	14.5	15.6	15.3	15.2	-
INDUSTRY'S SHARE IN WAGE-EARNING POPULATION							
MARCH	-	18.2	17.1	17.0	18.2	16.7	16.8
JULY	16.4	17.6	16.4	17.3	15.7	16.1	-
NOVEMBER	16.0	16.5	15.3	16.9	16.0	15.7	-

* Preliminary adjusted figures.

SOURCE: Ministry of Labor: National Survey on households. Employment and unemployment.

TABLE 3.15

INDUSTRIAL SECTOR'S TOTAL WAGE-EARNING AND WORKING POPULATION

(1977-1981)

(Growth rates with respect to previous period)

	1977	1978*	1979	1980	1981	1982
1. Total working population						
March	-	6.1	3.3	3.6	-0.4	3.7
July	6.4	5.6	3.3	.8	0.2	
November	4.5	7.1	-.8	.9	5.4	
2. Sector's working population						
March		2.9	5.1	9.3	-5.4	7.2
July	15.1	1.3	11.0	0.7	-4.9	
November	8.6	2.0	6,9	-1.2	4.6	
3. Total wage-earning population						
March	-	8.0	5.1	2.3	1.1	3.7
July	5.9	6.8	2.8	4.3	-.1	
November	5.9	9.1	-.0	2.4	4.1	
4. Sector's wage-earning population						
March	-	1.1	4.95	9.1	-7.2	4.4
July	13.4	-0.5	8.78	5.7	-8.2	
November	9.5	0.0	9.50	-3.0	2.4	

* Preliminary adjusted figures.

Source: Ministry of Labor. National Survey on Households. Employment and Unemployment.

The previously mentioned trends are likewise applied to the specific case of the industrial wage-earning population; however, the critical phase between the second semester of 1980 and the first semester of 1981 was most severe, leaving a balance of 7,800 laid-off workers between July 1980 and July 1981 1/.

3.2.3.2 WAGES

The average monthly nominal wages per person paid by the industrial sector during the 1976-1980 period was lower than the country's total average (Table 2.30). It was only possible to place it above the average of the agricultural sector; however, it must be taken into account that the daily shifts, as in construction and agriculture, are usually longer than in the industrial sector, thus tending to raise their average monthly wages. The wage increases granted by industry mainly in the second semester of 1981 (and at the beginning of 1982), made the picture change slightly, since from that time industry's monthly average has surpassed the total average.

Industry's real wages as well as those of the rest of the economic sectors started to drop as of 1980 (Table 2.30). The 1981 drop was highly drastic for the economy (-15.5%); however, the nominal wage increase granted by industrial enterprises during that year permitted the real wages of the manufacturing sector to be the least affected ones (-8.7%)

It is interesting to remember that in 1981 industrial firms also endeavored to increase productivity of the contracted workers, which could be linked to the mentioned wage increases.

1/ To avoid confusion it is worthwhile clarifying that in view of the fact that the wage-earning population is a part of the working population, a drop in the wage-earning population greater than the one that took place in employment, implies that the non-wage-earning employment of the industrial sector increased.

3.2.4 INVESTMENTS IN THE INDUSTRIAL SECTOR

Unfortunately there are no recent figures on the investments made by the industrial sector and thus the situation shall be presented up to 1979.

3.2.4.1 INVESTMENT'S EVOLUTION

During the 1976-1979 period the country's total gross investment was made up of over 90% by private investment, of which a little over the sixth part was made by the industrial sector 1/ (Tables 3.16 - 3.21).

The manufacturing sector's gross investments measured in colones in real terms, drastically lost strength after the strong growth experienced in 1977 as a result of the coffee boom. In 1977 investments in new buildings were the ones showing the most active behavior, as opposed to the years following in which the amount of gross investment devoted to this purpose decreased. The purpose of a very high percentage of industry's annual investments is to replace and increase its stocks of machinery and equipment, which situation is reaffirmed as time lapses.

The industrial sector's net investment in colones in real terms showed negative figure exchange rates during 1978-1979 (-20% and -6%, respectively), thus decreasing its share within the country's overall investments.

At the same time, an accelerated decrease in foreign investment in the industrial sector was noted in the period studied, to the point that its share within industry's overall investments passed from 45% in 1976 to 15% in 1979 (Table 3.19). It is very likely that such tendency has been kept up in the past two years, due to the country's difficult economic situation as well as to the adverse environment created by the political situation in Central America. As a matter of fact, foreign investment was negative in 1980.

1/ In 1977, which was an exceptional year, it meant 23%; since then the industrial sector's share has been declining.

TABLE 3.16

INDUSTRIAL SECTOR'S TOTAL GROSS INVESTMENT

1976-1979

(Millions of colones in nominal terms)

	1976	1977	1978	1979
Total gross investment	4.892.3	6.390.4	7.083.9	8.754.7
Private gross investment	4.360.3	5.849.6	6.666.5	8.381.9
Industrial sector's gross investment	794.0	1.346.9	1.260.3	1.371.3
Machinery & equipment	697.4	858.6	1.130.9	1.527.9
New buildings	101.9	185.1	158.6	159.2
Variation of inventories	-5.3	303.2	-29.2	-315.8
GROWTH RATES				
Total gross investment	----	30.6	10.8	23.6
Private gross investment	----	34.4	14.0	25.7
Industrial sector's gross investment	----	69.6	-6.5	8.8
RELATIVE FIGURES				
Private gross investment 1)	89.1	91.5	94.1	95.7
Industrial gross investment 1)	16.2	21.1	17.8	15.7
Industrial gross investment 2)	18.2	23.0	18.9	16.4

1) Percentage as to total

2) Percentage as to total private investment

SOURCE: Central Bank of Costa Rica. National Accounts

TABLE 3.17

INDUSTRIAL SECTOR'S GROSS AND NET INVESTMENTS

1976-1979

(In millions of colones in nominal terms)

	1976	1977	1978	1979
Gross Investment	794.0	1.346.9	1.260.3	1.371.3
New buildings	101.9	185.1	158.6	159.2
Machinery & equipment	697.4	858.6	1.130.9	1.527.9
Inventory variation	-5.3	303.2	-29.2	-315.8
Depreciation	260.4	305.5	351.7	404.3
Net Investment	533.6	1.041.4	908.6	967.0
Growth rates				
Gross Investment	---	69.6	-6.5	8.8
New buildings	---	81.6	-14.3	0.4
Machinery & equipment		23.1	31.7	35.1
Net Investment	---	95.1	-12.7	6.4

SOURCE: Central Bank of Costa Rica. National Accounts.

191

TABLE 3.18

INDUSTRIAL SECTOR'S GROSS AND NET INVESTMENTS

1976-1979

(In millions of in real terms)

(base 1976 = 100)

	1976	1977	1978	1979
Gross Investment	794.0	1236.8	1061.2	1060.9
New buildings (1)	101.9	173.6	136.1	111.3
Machinery and equipment (2)	697.4	781.2	950.3	1184.4
Inventory variation (3)	-5.3	202.0	-25.2	-234.8
Net investment	533.6	956.3	769.3	720.6
Growth Rates				
Gross Investment		55.8	-14.2	0.0
New buildings		70.4	-21.6	-18.2
Machinery and equipment		12.0	71.6	24.6
Net Investment		79.2	-19.5	-6.3

(1) Deflated by the implicit deflator in new buildings.

(2) Deflated by the implicit deflator for investments in machinery and equipment.

(3) Deflated by the wholesale price index.

Source: Central Bank of Costa Rica. National Accounts.

TABLE 3.19

INDUSTRIAL SECTOR'S GROSS INVESTMENT ACCORDING TO ORIGIN OF CAPITAL

1976-1980

(In millions of colones in real terms*)

(base 1976 = 100)

	1976	1977	1978	1979	1980
TOTAL	794.0	1236.8	1061.2	1060.9	n.a.
Foreign Investment	353.9	337.6	279.4	159.0	-48.5
National Investment	440.1	899.2	781.8	901.9	n.a.
Share					
TOTAL	100.0	100.0	100.0	100.0	n.a.
Foreign Investment	44.6	27.3	26.3	15.0	n.a.
National Investment	55.4	72.7	73.7	85.0	n.a.
Growth Rate					
TOTAL	-	55.8	-14.2	0.0	n.a.
Foreign Investment	-	-4.6	-17.2	-43.1	
National Investment	-	104.3	-12.3	9.4	n.a.

n.a. = Not available

* Deflated by the implicit deflator of gross capital formation.

Source: Central Bank of Costa Rica. National Accounts and Balance of Payments.

[illegible]

COUNTRY'S AND INDUSTRIAL SECTOR'S TOTAL NET INVESTMENT

1976-1979

(millions of colones in nominal terms)

	1976	1977	1978	1979
Total net investment	3769.1	5038.4	5499.6	6908.9
Industrial net investment	533.6	1041.4	908.6	967.0
Industrial Sector's share	14.2	20.7	16.5	14.0
Growth				
Total net investment		33.7	9.2	25.6
Industrial net investment		95.1	-12.7	6.4

Source: Central Bank of Costa Rica. National Accounts.

TABLE 3.21

COUNTRY'S AND INDUSTRIAL SECTOR'S TOTAL NET INVESTMENT

1976-1979

(In millions of colones in real terms*)

(Reference year 1976 = 100)

	1976	1977	1978	1979
TOTAL NET INVESTMENT	3769.1	4660.9	4660.7	5186.9
INDUSTRIAL NET INVESTMENT	533.6	956.3	769.3	720.6
GROWTH				
TOTAL NET INVESTMENT		23.7	0.0	11.3
INDUSTRIAL NET INVESTMENT		79.2	-19.5	-6.3

* Deflated by the implicit deflator of gross capital formation.

Source: Central Bank of Costa Rica. National Accounts.

3.2.4.2 SOME CHARACTERISTICS OF FOREIGN INVESTMENT IN THE INDUSTRIAL SECTOR.

A study on foreign investment in Costa Rica's industrial sector conducted early this year 1/ gave some interesting results. The information is based on a survey made of the country's 28 most important foreign firms, which generated 13% of the value of industrial production in 1979 and a similar percentage of the value added by Costa Rican industry in 1979.

A high proportion of foreign investment in Costa Rica was channelled towards the industrial sector, mainly as direct investment. The sharing of foreign capital in the manufacturing industries that were interviewed oscillated almost in all cases between 50% and 100% and the resources came basically from the United States of America, Mexico, Japan and the Federal Republic of Germany.

The companies with foreign capital have concentrated in the divisions of Chemical, rubber and plastic products, Milling, Food, beverages and tobacco. The medium and large companies prevailed, measured in terms of the value of generated production as well as in terms of employed workers, which absorb portions not lower than 40% of the internal market with their respective product.

The interviewed companies stated that their purpose for establishing themselves in Costa Rica had been to supply the internal market and the Central American market, with views to utilize the advantages offered by the lower labor cost in comparison with developed countries. This latter opinion was mainly expressed by the companies belonging to the divisions of Textiles, manufacture and leather and of Paper, printing and editing. In the case of Food, beverages and tobacco division the main incentive turned out to be the reduced cost of raw material.

Other general factors, but definitely not less important ones, strongly influenced the decision to invest in Costa Rica; among these the country's political stability stands out undoubtedly.

1/ Hannover I, Hamman H., Peltzer R., Richter P., Schubert R and Thulle Ch. Foreign investments in the industrial sector of Costa Rica (Preliminary report), 1982.

Finally, the opinion of the parties interviewed about the quality of the infrastructure offered by the country for the development of industrial activities, is summarized under Table 3.22. The figures clearly show that the country offers an ensemble of infrastructure facilities which have been classified as satisfactory or very satisfactory by most of the already established foreign investors, except as far as the granting of credit is concerned.

TABLE 3.22

OPINIONS ON COSTA RICA'S INFRASTRUCTURE FOR THE DEVELOPMENT OF INDUSTRIAL ACTIVITIES

1 9 8 1

(In number of answers)

ASPECT	OPINION	
	Satisfactory or very satisfactory	Not satisfactory
Electric power, gas & water supply	26	2
Quality of communication system	28	0
Quality of transportation system (ports, railroads, haighways)	25	3
Quality of labor		
qualified	28	0
non-qualified	25	3
Availability of labor		
qualified	26	2
non-qualified	27	1
Availability of Costa Rican managers	24	4
Labor code provisions (labor unions, labor benefit payments, shifts protection of employment sites)	26	2
Efficacy of the juridical system (judicial claims)	25	3
Private property protection	28	0
Patent and trademark protection	27	1
Private property protection	28	0
Import and export procedures	20	8
Credit facilities	5	23

SOURCE: Hannover I., Hamman H.: Foreign investments in Costa Rica's Industrial Sector. (Preliminary report), 1982.

3.2.5 CREDIT AND FINANCIAL SITUATION IN THE INDUSTRIAL SECTOR.

3.2.5.1 CREDIT

During the 1976-1978 period the industrial sector received a little over one fourth of the total loans granted by the National Banking System. Since then this proportion started to drop and in 1981 it stopped at 22% (Tables 3.23 - 3.25). In the first two years of the mentioned period most of the loans to industry were granted to finance their operations, whilst the following three years were characterized by an inverse situation. The greater working capital needs felt by the companies as a result of devaluation, could have been the reason that in 1981 the largest part of the credit was again used to finance their operations.

The growth of the total banking loans in colones in nominal terms has decreased since three years ago, and to a great extent it has also happended with investments in the industrial sector. Now, what is of interest is its behavior in constant terms. From that outlook it is possible to appreciate that the credit granted to the industrial sector, has reduced rather than disaccelerated during the past three years. The year 1981 deserves a special mention since in this year the drop was 34%, a level of loans being established which in colones in real terms was lower than the one granted in any of the previous years. It is worthwhile stating that the total loans also suffered a contraction of the same dimension in 1981.

The interest rate policy will be analyzed in the section on the financial system; however, it is advisable to indicate that in that aspect the industrial sector enjoyed a preferential treatment in the banks' commercial departments since 1979 and were charged an interest on loans granted that was lower than the one for the rest of the destination of credit, except in agriculture, cattle, hunting and fishery [1/] (Table 2.16).

A comment that can be applied to all these activities is that in the past three years, and very especially in 1981, the interest rates in real terms which have been established for their loans have acquired negative values, thus becoming a factor which tends to increase the companies' demands for credit resources.

1/ Be it remembered that by the end of 1978 a financial reform was attempted the main result of which was the raising of interest rates on loans made by the National Banking System.

TABLE 3.23

EFFECTIVE LOANS BY THE NATIONAL BANKING SYSTEM

1976-1981

(In millions of colones in nominal terms)

	1976	1977	1978	1979	1980	1981
Total	6202.6	7303.8	9027.1	10810.4	12167.4	13352.4
Industry	1560.9	1900.4	2388.3	2672.6	2726.9	2977.7
Other economic sectors	4641.7	5403.4	6638.8	8137.8	9440.5	10374.7
Relative figures						
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Industry	25.2	26.0	26.5	24.7	22.4	22.3
Other economic sectors	74.8	74.0	73.5	75.3	77.6	77.7
Growth						
Total		17.8	23.6	19.7	12.5	9.7
Industry		21.5	25.7	11.2	2.0	9.2
Other economic sectors		16.4	22.9	22.6	16.0	9.9

SOURCE: Central Bank of Costa Rica: Credit and monetary accounts.

TABLE 3.24

EFFECTIVE LOANS OF THE NATIONAL BANKING SYSTEM

1976 - 1981

(In millions of colones in real terms)

(Base year 1976 = 100)

	1976	1977	1978	1979	1980	1981
TOTAL	6202.6	6794.2	7788.7	8037.5	7312.1	4862.5
Industry	1560.9	1767.8	2060.7	1987.1	1638.8	1084.4
Other economic sectors	4641.7	5026.4	5728.0	6050.4	5673.3	3778.1
Growth Rates						
TOTAL	---	9.05	14.6	3.2	-9.1	-33.5
Industry	---	13.6	16.6	-3.6	-17.5	-33.8
Other economic sectors	---	8.3	14.0	5.6	- 6.2	-33.4

* Deflated by the wholesale price index.

SOURCE: Central Bank of Costa Rica. Credit and Monetary Accounts.

TABLE 3.25

EFFECTIVE LOANS BY THE NATIONAL BANKING SYSTEM IN THE INDUSTRIAL SECTOR

1976-1981

(in millions of colones in real terms*)

(1976 = 100)

	1976	1977	1978	1979	1980	1981
TOTAL	1560.9	1767.8	2060.7	1987.1	1638.8	1084.4
Investment	632.9	811.4	1060.4	1002.5	825.7	498.7
Operation	928.0	956.4	1000.3	984.6	813.1	585.7
Relative figures						
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0
Investment	40.5	45.9	51.5	50.5	50.4	46.0
Operation	59.5	54.1	48.5	49.5	49.6	54.0
Growth rate						
TOTAL	-	13.3	16.6	-3.6	-17.5	-33.8
Investment	-	28.2	30.7	-5.5	-17.6	-40.0
Operation	-	3.1	4.6	-1.5	-17.4	-28.0

* Deflated by the wholesale price index.

Source: Central Bank of Costa Rica. Credit and Monetary Accounts.

3.2.5.2 MAIN FINANCING SOURCES

The lower credit availability at a time when working capital requirements are greater than before, has forced companies to use other financing sources more often. One of the last reports of the Survey on Industrial Status 1/ states that of the companies interviewed at the end of 1981, 49% were self-financing themselves, 27% were resorting to private financial intermediaries and the remaining 24% used other sources, among which we find the National Banking System relegated to a third place.

3.2.5.3. FINANCIAL SITUATION

At this time financial problems are the ones most affecting the industrial sector. These problems have worsened as a result of the devaluation, upon increasing the external debts in colones, with the limited availability of banking credit and with the hardening of the conditions for the purchasing of inputs within the country as well as abroad.

The financial problems, among other forms, have turned into serious difficulties for the supply of raw materials and their size is such that both problems (supply of raw materials and financing) constituted the main concern of 71% of the companies that were interviewed in the Survey on Industrial Status that was made in November 1981 2/.

The aforementioned difficulties may differ in each company and will probably vary according to the size of such companies. The Export Promotion Survey made by the Economics Research Institute in the months of April and May 1982 gathered interesting information on a sample in which at least one third was made up by industrial companies with less than 20 employees and 50% by companies with more than 20 but less than 100 workers. In other words, it is a sample made up by companies that can call themselves small or medium companies, as opposed to the sample of the Industrial Status Survey which is mainly made up of large companies.

1/ Evolution of Industry in Costa Rica in 1981 and prospects for 1982. Economics Research Institute, University of Costa Rica.
2/ Evolution of Industry... Op. Cit.

The referred-to information has a preliminary nature and refers to some financial relations of the interviewed companies. Of a total of 83 answers, 23% stated that their liquidity ratio 1/ was below the unit whilst 75% stated that theirs was above said reference mark (Table 3.26). Not withstanding, of these latter ones more than three fourths was less than two.

The indebtedness ratio 2/ of 56% of the cases was above one half, thus establishing an indebtedness average of 0.6 (Table 3.27). In turn, the fixed assets/total assets ratio reached a 0.4 average, and over 70% of the firms had a ratio below 0.5 (Table 3.28). From these two latter ratios it can be inferred that a considerable percentage of the debts of these companies is backed by current assets or other kinds of assets, which reflects the practice of pledging inventories.

It is clear that the sole analysis of the aforesaid ratios does not give us a complete view of the situation of the interviewed companies, but from what is stated it can be inferred that they are operating with a limited working capital and that their possibilities of contracting debts offering good guarantees such as fixed assets, are very weak.

As has been established, these figures are indicators of the financial situation of small and medium-size companies. Based on these data it is difficult to predict the possible magnitude of the liquidity and indebtedness ratios in the case of large companies, because even though it can be expected that these may tend to possess a self-financing capacity larger than the previous ones, it can also be expected that they will be inclined to be less reluctant to risks due to their greater technical and administrative capacity, and that they will have a comparatively high external debt coefficient.

1/ Current assets/current liabilities

2/ Total liabilities/Total assets.

TABLE 3.26

LIQUIDITY RATIO OF THE COMPANIES TAKEN INTO ACCOUNT IN THE EXPORT PROMOTION SAMPLE*

(According to number of answers)

		LESS THAN 1	EQUAL TO 1	MORE THAN 1
SAMPLE TOTAL		19	2	62
31	FOOD, BEVERAGES, TOBACCO	6	-	6
32	TEXTILES, CLOTH MANUFACTURE, & LEATHER	5	1	16
33	LUMBER AND FURNITURE	1	-	7
34	PAPER, PRINTING AND EDITING HOUSES	-	-	5
35	CHEMICAL, RUBBER AND PLASTIC PRODUCTS	3	1	15
36	NON-METALLIC MINERALS	-	-	3
37/38	MILLING	4	-	10
39	OTHER INDUSTRIES	-	-	4

* Preliminary figures, referring to the current assets/current liabilities ratio.

SOURCE: Economics Research Institute. Export Promotion Survey, 1982.

TABLE 3.27

INDEBTEDNESS RATIO OF COMPANIES TAKEN INTO ACCOUNT IN THE EXPORT PROMOTION SAMPLE*

(According to number of answers)

		Less than 0.5	Equal to 0.5	More than 0.5	Average of ratio
TOTAL		32	3	48	.58
31	Food, beverages, tobacco	4	1	7	.56
32	Textiles, cloth manufacture and leather	11	-	11	.52
33	Lumber & furniture	4	-	4	.57
34	Printing and editing paper	3	-	2	.52
35	Chemical, rubber & plastic products	4	+1	10	.65
36	Non-metallic minerals	-	-	3	.75
37/38	Milling	5	1	8	.60
39	Other industries	1	-	3	.59

* Preliminary figures, referring to the total liabilities/total assets ratio.

SOURCE: Economics Research Institute.
Export Promotion Survey, 1982.

TABLE 3.28

FIXED ASSETS/TOTAL ASSETS RATIO OF COMPANIES TAKEN INTO ACCOUNT IN THE EXPORT PROMOTION SURVEY SAMPLE*

(According to number of answers)

DIVISIONS	LESS THAN 0.5	EQUAL TO 0.5	MORE THAN 0.5	AVERAGE OF RATIO
SAMPLE TOTAL	61	2	22	0.36
31 FOOD, BEVERAGES, TOBACCO	5	-	7	0.46
32 TEXTILES, CLOTH MANUFACTURE, LEATHER	15	1	6	0.44
33 LUMBER AND FURNITURE	5	-	3	0.38
34 PAPER, PRINTING AND EDITING	4	-	1	0.28
35 CHEMICAL, RUBBER & PLASTIC PRODUCTS.	13	-	3	0.30
36 NON-METALLIC MINERALS	3	-	-	0.28
37/38 MILLING	12	1	2	0.30
39 OTHER INDUSTRIES	4	-	-	0.24

* Preliminary figures.

SOURCE: Economics Research Institute. Export Promotion Survey, 1982.

3.2.5.4 INVESTMENT AND FINANCING BY THE NATIONAL BANKING SYSTEM FOR INDUSTRIAL INVESTMENTS

Table 3.29 shows an interesting relation between financing for investment granted by the National Banking System and its behavior. According to the figures, except in 1977, banking credit financed more than the total national investment made by the industrial sector; in other words, the credit resources for investment granted by the banks were higher than those effectively applied to this item by national industry. If the overall gross investment is taken into account, that is both national and foreign, one will appreciate that the banks granted loans to finance practically the totality in 1978 and 1979 and if one takes into account only the total gross investment in fixed assets[1/], which is the destination expected of the investment loans granted by the National Banking System, we will find that the financing reached as an average more than 80 percent of its value during the years in question. Since this latter relation contemplates foreign investment in fixed assets, it can be supposed that the National Banking System financed an even higher percentage of national investment in fixed assets of the Costa Rican industry.

These figures naturally show the importance of the National Banking System as the propellant of the country's economic activity, but beyond that these figures make us reflect upon two aspects. In first place, those figures indicate the great extent to which the Costa Rican industry has become dependent on the credit resources of the national banks in order to expand its activities, thus reflecting a reduced inclination of the industrialists to invest their profits or, said in other words, these figures show that they are considerably reluctant to assume the risk of investing their own resources.[2]

In second place, the figures shown seem to indicate that not only a high proportion of investment financing has been requested, but also that furthermore, part of the credit requested has been diverted towards other activities other than industry or else for other purposes other than investment.

1/ Excluding in this case inventory changes, which on some occasions may be negative, implying non-investment.

2/ This situation may have varied in the past two years, since as explained in the comments on financing sources, in 1981 the National Bankings System found itself in a third place as a supplier of resources, at least of the companies therein mentioned. However, it could have been that in those years the proportion of financing by the National Banking System was reduced only in the case of industrial operations, in which area its participation has usually been lower than in investments as will be seen hereinafter. This hypothesis is strengthened by the fact that common sense makes us think that if in "normal" times industries did not invest large sums of their own resources, it is less probable that they will do so in a period of greater risks and uncertainty.

TABLE 3.29

INDUSTRIAL GROSS INVESTMENT AND FINANCING OF THE NATIONAL BANKING SYSTEM

1976-1981

(In millions of colones and percentages)

	1976	1977	1978	1979
INDUSTRIAL SECTOR'S GROSS TOTAL INVESTMENT	794.0	1346.9	1260.3	1371.3
FOREIGN GROSS INVESTMENT	354.0	367.6	329.9	213.4
NATIONAL GROSS INVESTMENT	440.0	979.2	930.4	1157.9
TOTAL GROSS INVESTMENT IN FIXED ASSETS 1/	799.3	1043.7	1289.5	1687.1
EFFECTIVE INVESTMENTS OF THE NATIONAL BANKING SYSTEM IN INDUSTRIAL INVESTMENT	632.9	872.3	1229.0	1348.4
Percentages				
FINANCING OF THE TOTAL GROSS INVESTMENT	0.80	0.65	0.98	0.98
FINANCING OF THE NATIONAL GROSS INVESTMENT	1.44	0.89	1.32	1.16
FINANCING OF THE TOTAL GROSS INVESTMENT IN FIXED ASSETS	0.79	0.84	0.95	8.0

1/ Excludes the inventory change

SOURCE: Central Bank of Costa Rica. Credit, National Accounts and Monetary Accounts.

Both aspects are of definitive interest. The first one, because it could be used to submit the entrepreneurial vocation of national industrialists to judgement, since it is supposed that one of the characteristics of the entrepreneur should be his outstanding capacity to assume calculated risks, which capacity encourages him to identify the most profitable projects and activities, whilst the commented figures suggest the predominance of administrators of banking resources leading the profits into private hands. This is just another way to appreciate the certainty of the phrase which is commonly used when referring to the weaknesses of the National Banking System, which is, that it favors the leading of profits into private hands and keeping the losses in the hands of the State.

The second aspect is of great interest because not only does it suggest a deficiency in the controls of the state-owned banks, but it also introduces an element that dilutes the impact of the efforts made by the National Banking System on the different economic activities and purposes.

The comments with respect to industrial entrepreneurs can naturally not be applied indiscriminately; there will be exceptions, but the general behavior pointed out as inferred from the figures, must be duly taken into account in the establishment of a credit policy leading towards reactivating the industrial sector.

3.2.5.5 PRODUCTION COSTS AND FINANCING OF OPERATING COSTS BY THE NATIONAL BANKING SYSTEM.

The financing of industrial operations by the National Banking System has characteristics that are different from the ones in financing investments. During the 1977-1979 period, the state-owned banks hardly financed about 7% of the production cost[1/] and in the past two years this proportion was even lower (6.2% and 4.4% in chronological order), as a result of the coupling of the high cost increase with the lesser availability of credit.[2/] (Table 3.30).

1/ In 1976, 8.3% of the production cost was financed.

2/ It must be taken into account that the production cost and value being used here include the traditional agroindustrial activities, whose operations are usually financed by other means (especially processing plants and mills). If these activities were excluded, the financing percentage would probably increase.

It is possible that due to the reduced volume of credit that is granted for operations in comparison to the size of the cost, part of the resources supposedly directed towards investment financing be channelled towards financing the companies' short-term needs.

TABLE 3.30

COSTS OF INDUSTRIAL PRODUCTION AND FINANCING BY THE NATIONAL BANKING SYSTEM

1976 - 1981

(Millions of colones)

	1976	1977	1978	1979	1980	1981*
GROSS VALUE OF PRODUCTION	12270.7	16032.4	17515.6	19640.4	23568.3	40664.7
Operating surplus	1044.3	1312.9	1396.0	1659.8	1891.3	3473.3
Production costs	11226.4	14719.4	16119.6	17980.6	21677.3	37191.4
Financing of operations	928.0	1028.1	1159.3	1324.2	1353.0	1608.3
Percentage of the financed production	8.3	7.0	7.2	7.4	6.2	4.3

* Preliminary figures.

SOURCE: Our own analysis based on figures of the Central Bank of Costa Rica.

3.2.6 INDUSTRY AND THE EXTERNAL SECTOR

3.2.6.1 INDUSTRIAL SECTOR'S IMPORTS IN THE 1978-1981 PERIOD

Up to 1979, the value of the industrial sector's imports did not reach 50% of the value of the overall imports, although it always maintained itself as the most important item of external purchases made by the country (Tables 3.31-3.34).

The picture changed during the past two years, since its share within the overall imports strongly increased, reaching in 1981 an unusual proportion which exceeded two thirds of the total.

Among the factors explaining this behavior we must take into account the increase of the industrial import prices, but we should mainly consider the fact that the industrial sector cannot permit itself to have a reduction of its purchases abroad at the rate other sectors of the Costa Rican economy could do so, because it would in many cases mean the standstill of its activities. Thus, whilst total imports drastically dropped (-20.5%) in 1981 as a result of such an intense devaluation of the colon, industrial imports increased by 3.4%, although it must be accepted that this figure is very inferior to the figure of the previous two years (28% and 23% in chronological order).

Over 80% of the industrial sector's external purchases correspond to raw materials, which due to their essential nature within the productive process, confirms the comment made on the inflexibility of industrial imports.

On the other hand, during the years under study, the Central American market was not even able to supply 15% of the Costa Rican industry's imports, and in the recent years we have rather observed an important decrease in its supply capacity, as a result of the difficulties faced by the area's economies. The little importance of Central America as a supplier of raw materials and capital goods shows the absence of verticality in the integration of Central American industry.

TABLE 3.31

COSTA RICA'S CIF IMPORTS ACCORDING TO ECONOMIC SECTORS AND ECONOMIC CATEGORIES

1976-1981

(Thousands of dollars)

	1976	1977	1978	1979	1980	1981
TOTAL	770.412	1.021.430	1.165.730	1.396.812	1.523.797	1.211.214
AGRICULTURE	44.684	57.200	60.618	65.650	74.666	100.531
Raw material	22.342	28.600	33.800	36.320	50.283	82.361
Capital goods	22.342	28.600	26.818	29.330	43.383	18.170
INDUSTRY	358.242	461.686	503.595	645.327	793.908	821.203
Raw material 1/	292.756	377.929	409.174	511.235	690.286	661.323
Capital goods	65.485	83.757	94.421	134.102	103.622	159.880
CONSTRUCTION	87.827	73.543	109.580	103.360	112.761	64.194
Raw material	28.505	41.110	71.110	58.6[illegible]	71.621	64.194
Capital goods	59.322	31.665	38.470	44.690	41.140	
OTHER ECONOMIC CATEGORIES	279.659	490.002	491.937	582.475	542.462	225.286

1/ Includes crude oil.

SOURCE: Central Bank of Costa Rica: Balance of Payments.
RECOPE: Fuel import figures.

TABLE 3.32

STRUCTURE OF COSTA RICA'S CIF IMPORTS ACCORDING TO ECONOMIC SECTORS AND ECONOMIC CATEGORIES

(In percentages)

	1976	1977	1978	1979	1980	1981
TOTAL	100%	100%	100%	100%	100%	100%
INDUSTRY	46.5	45.2	43.2	46.2	52.1	67.8
Raw material 1/	38.0	37	35.1	36.6	45.3	54.6
Capital goods	8.5	8.2	8.1	9.6	6.8	13.2
AGRICULTURE	5.8	5.6	5.2	4.7	4.9	8.3
Raw material	2.9	2.8	2.9	2.6	3.3	6.8
Capital goods	2.9	2.8	2.3	2.1	1.6	1.5
CONSTRUCTION	11.4	7.2	9.4	7.4	7.4	5.3
Raw material	3.7	4.1	6.1	4.2	4.7	5.3
Capital goods	7.7	3.1	3.3	3.2	2.7	-
OTHER ECONOMIC SECTORS	36.3	42	42.2	41.7	35.6	18.6

1/ Includes crude oil

SOURCE: Table 3.31.

TABLE 3.33

INDUSTRIAL CIF IMPORTS ACCORDING TO ECONOMIC CATEGORIES

AND ORIGIN OF THE GOODS

1976-1981

(In thousands of dollars)

	1976	1977	1978	1979	1980	1981
Total imports	358.525	462.050	503.311	645.425	794.511	821.583
Rest of the world	307.100	400.776	432.142	575.504	726.294	n.a.
Central America	51.485	61.274	71.169	69.921	68.217	n.a.
Import of raw material(1)	269.570	341.812	364.103	449.407	572.986	533.457
Rest of the world	218.790	281.719	294.289	380.948	506.348	n.a.
Central America	50.780	60.093	69.814	68.459	66.638	n.a.
Crude oil	23.555	35.960	45.006	62.559	117.191	128.429
Import of capital	65.460	84.278	94.202	133.459	104.334	159.697
Rest of world	64.755	83.097	92.847	131.997	102.755	n.a.
Central America	0.705	1.181	1.355	1.462	1.579	n.a.

(1) Does not include crude oil

n.a. = Not available

Source: Central Bank of Costa Rica. Balance of Payments.
RECOPE: Fuel import figures.

TABLE 3.34

STRUCTURE OF CIF IMPORTS OF THE INDUSTRIAL SECTOR ACCORDING TO ECONOMIC CATEGORIES AND ORIGIN OF THE GOODS -- 1976 - 1981

(In percentages)

	1976	1977	1978	1979	1980	1981
TOTAL IMPORTS	100%	100%	100%	100%	100%	100%
Import of raw material	75.2	74.0	72.3	69.6	72.11	64.9
Import of crude oil	6.6	7.8	8.9	9.7	14.7	15.6
Import of capital goods	18.2	18.2	18.8	20.7	13.2	19.5
TOTAL IMPORTS	100%	100%	100%	100%	100%	100%
Rest of world	85.6	86.7	85.9	89.2	91.4	n.a.
Central America	14.4	13.3	14.1	10.8	8.6	n.a.
IMPORT OF RAW MATERIAL (1)	100%	100%	100%	100%	100%	100%
Rest of world	82.7	84.1	82.9	86.6	90.3	n.a.
Central America	17.3	15.9	17.1	13.4	9.7	n.a.
IMPORTS OF CAPITAL GOODS	100%	100%	100%	100%	100%	100%
Rest of world	98.9	98.6	98.6	98.9	98.5	n.a.
Central America	1.1	1.4	1.4	1.1	1.5	n.a.

n.a. = not available

(1) Includes crude oil

SOURCE: Tables 3.31 - 3.33.

3.2.6.2 : 1976-1981 INDUSTRIAL EXPORTS

During the 1976-1979 period the industrial sector generated around 30% of the country's export revenue (Tables 3.35 and 3.36). The years following are really non-typical. The strong growth of industrial exports occured in 1980 (35%) simultaneously with the drop in coffee prices, converted the manufacturing sector into the producer of 37% of the total value of the exports that year. In turn, last year (1981) industrial export only grew by 3%, but the slight increase of the total exports permitted industry to keep its relative importance as a foreign exchange producer.

The small increase of industrial exports experienced in 1981, seems not to be congruent with the more competitive prices of the national products in the international market that could be expected after a devaluation of the colon as occurred in 1981. In spite of the above, several limitations to the expansion of exports during that year should be taken into account. In first place, the Central American market, which as we shall see herinafter absorbs close to 70% of the industrial exports, noticeably contracted due to the import restrictions imposed by the Government of Nicaragua and to the worsening of the economic and political problems of the rest of the Central American countries. In second place, as was established above, the Costa Rican industry has been basically devoted to the internal market, so that even if the competitiveness of the prices of the national products had increased, a considerable part of the Costa Rican enterprises has not developed the organization and in many cases the quality required to enter international markets, the access to which has furthermore become more difficult due to the difficult economic situation of most of the countries of the world. At the same time, the strong devaluation also encourages substitution of imports, thus tending to reinforce the importance of the internal market and diminishes the resources that could be devoted to the exportable production. In third place, the environment of uncertainty and lack of control in exchange matters in 1981, could have discouraged the making of entrepreneurial decisions which are required to increment exports; for instance, increase of investments to improve quality and efficiency and more sales expenses which are needed to enter new markets. To the foregoing there is added a purely statistical element which to some extent may be affecting the 1981 export figures.

TABLE 3.35

COSTA RICA'S FOB EXPORTS

(According to economic sector and destination of goods)

1976-1981

(Thousands of dollars)

	1976			1977			1978		
	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL
TOTAL	462.288	130.653	592.941	654.362	173.802	828.164	686.271	178.636	864.9[illegible]
1) Agriculture	388.270	2.168	390.438	563.114	6.766	569.876	593.534	10.422	603.9[illegible]
2) Mines & quarries	0.030	0.129	0.159	0.046	0.194	0.240	0.038	0.105	0.1[illegible]
3) Industry 1/	64.278	125.85	190.128	79.685	163.457	243.142	73.096	164.765	237.8[illegible]
4) Other economic sectors	9.710	2.506	12.216	11.521	3.385	14.906	19.603	3.344	22.9[illegible]
RELATIVE FIGURES									
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
1) Agriculture	84.0	0.0	65.8	86.0	3.9	68.8	86.5	5.8	69.8
2) Mines & quarries	0.0	-	-	-	-	-	-	-	-
3) Industry	13.9	96.3	32.1	12.2	94.1	29.4	10.6	92.2	27.5
4) Other economic sectors	2.1	1.9	2.1	1.8	2.0	1.8	2.9	2.0	2.7

1/ Beef and sugar not included.

SOURCE: Central Bank of Costa Rica. Balance of Payments.

TABLE 3.35 (Brought forward)

	1979			1980			
	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	1981 1/ TOTAL
TOTAL	758.957	175.434	934.391	731.414	270.328	1001.742	1035.8
Agriculture	636.406	3.109	639.515	597.13	3.872	601.002	586.3
Mines & quarries	0.046	0.124	0.170	.075	0.053	0.128	.1
Industry	102.756	169.140	271.896	112.367	254.981	367.348	380.3
Other economic sectors	19.749	3.061	22.810	21.842	11.422	33.264	69.1
RELATIVE FIGURES							
TOTAL	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Agriculture	83.8	1.8	68.4	81.7	1.4	60.0	56.6
Mines & quarries	-	-	-	-	-	-	-
Industry	13.6	96.4	29.1	15.3	94.3	36.6	36.7
Other economic sectors	2.6	1.8	2.5	3.0	4.3	3.4	6.7

1/ Preliminary figures.

SOURCE: Central Bank of Costa Rica. Balance of Payments.

TABLE 3.36

COSTA RICAN INDUSTRIAL FOB EXPORTS

(According to industrial division and destination of goods)

1976-1981

(In thousands of dollars)

	1976			1977			1978		
	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTA
INDUSTRY TOTAL (1)	64.278	125.850	190.128	79.685	163.457	243.142	73.096	164.765	237.8
31 Food, beverages, tobacco	8.803	9.274	18.077	18.564	13.327	31.891	26.527	13.739	40.2
32 Textiles, cloth/manufacture, leather	4.993	28.613	33.606	3.684	32.698	36.382	4.491	30.722	35.2
33 Lumber and furniture	3.153	4.168	7.321	3.091	7.141	10.232	2.902	6.733	9.6
34 Printing & editing paper	0.809	4.343	5.152	0.903	5.031	5.934	0.831	5.719	6.5
35 Chemical rubber and plastic products	21.620	34.285	56.005	17.176	42.488	59.664	18.612	46.877	65.4
36 Non-metallic minearls	0.370	1.001	1.371	0.238	1.115	1.353	0.475	2.681	3.1
37 Basic metallic products	0.742	3.435	4.177	0.628	4.127	4.755	0.897	3.796	4.6
38 Metal machinery, equipment	9.793	24.971	34.764	9.830	37.301	47.131	12.963	36.814	49.7
39 Others industries	13.995	15.660	29.615	25.571	20.229	45.800	5.398	17.684	23.0

(1) Beef and sugar not included.

SOURCE: Central Bank of Costa Rica. Balance of Payments.

TABLE 3.36 (Brought forward)

	1979			1980			
	REST OF WORL	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	1981 2/ T
TOTAL (1)	102.756	169.140	271.896	112.367	254.981	367.348	380.
31 Food, beverages, tobacco (1)	37.739	15.198	52.937	31.097	24.157	55.254	64.65
32 Textiles, cloth manufacture and leather	11.634	30.966	42.590	13.182	57.272	70.454	62.36
33 Lumber and furniture	4.147	4.888	9.035	5.088	6.459	11.547	12.93
34 Printing and edigint paper	0.935	7.947	8.882	3.482	15.438	18.920	16.35
35 Chemical, rubber and plastic products	21.316	45.137	66.453	27.110	62.173	89.283	108.39
36 Non-metallic minerals	2.689	6.082	8.771	0.638	8.812	9.450	22.81
37 Basic metallic products	1.361	2.197	3.558	1.457	3.410	4.867	4.12
38 Metal machinery, equipment	16.493	36.890	53.383	22.756	48.281	71.037	69.21
39 Other industries	6.452	19.835	26.287	7.557	28.979	36.536	19.39

(1) Beef and sugar not included.

(2) Preliminary figures.

SOURCE: Central Bank of Costa Rica. Balance of Payments.

Due also to the considerable lack of order in exchange matters, to the high differential between the official exchange rate to settle exports and the free market exchange rate, and to the deficiencies in foreign exchange income controls, in many cases exporters found ways to show a smaller income of foreign currency than the one they really received. Among these practices we find invoicing of foreign sales for lower amounts, which would give origin to a figure of the export value lower than the one really received by the exporters. Although it is impossible to determine the magnitude of the impact of this practice, its presence can not be denied.

The distribution of the manufacturing export value according to the market of destination coincides with the destination structure of the industrial sales volume shown in section 3.2.2.1. Up to the year 1980, approximately 70% of the foreign sales had been made in Central America[1/], but due to the aforesaid reasons, this proportion may have decreased in 1981. It is worthwhile mentioning that in 1976 and 1977 exports to Central America grew strongly (26% and 30%, respectively), encouraged by demand due to the effect of coffee prices on the Central American economy and, after two years of slightly active sales, these grew strongly again in 1980, in this case furthered by the large Nicaraguan demand, in which country reconstruction was started after the revolution.

Of the total foreign exchange generated by the industrial sector, close to one fourth comes from exports of the division of Chemical, rubber and plastic[2/] products, of which approximately 70% is directed to Central America (Tables 3.37 and 3.38). If we observe the Central American markets and those of the rest of the world separately, the exports of this division also turn out to be comparatively the highest ones.

The Milling division follows in importance. It generates about 19% of the value of industrial exports which are also basically channelled to Central America. In turn, the Textiles, manufacture and leather division which has been identified previously as being the largest external opening, produced as an average 17% of the total value exported by industry during the 1976-1981 period[3/]. In the case of this division it is advisable to point out that

---

1/ In 1979 sales to Central America meant only 62%, due mainly to the drop in the Nicaraguan demand which had traditionally been the main Central American buyer of Costa Rican products.

2/ It must be pointed out that even though its importance in this sense had been gradually decreasing from 1976 to 1980, in 1981 it increased to almost 30% of the total, as a result of a strong growth of its exported value.

3/ Looking at the past three years, one can appreciate that the importance of this division as a foreign currency generator increased in the 1979-81 period, but on the contrary the Chemical products division decreases in 1981 due to a drop in the amount exported.

TABLE 3.37

COSTA RICA'S INDUSTRIAL FOB EXPORTS

(By industrial divisions and destination of goods)

1976-1980

(Relative figures)

	1976			1977			1979		
	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST. OF WORLD	CENTRAL AMERICA	TOTAL
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
31 Food, beverages, tobacco	13.7	7.4	9.5	23.3	8.1	13.1	36.3	8.3	16.9
32 Textiles, cloth manufacture, leather	7.8	22.7	17.7	4.6	20.0	15.0	6.1	18.6	14.9
33 Lumber and furniture	4.9	3.3	3.8	3.9	4.4	4.2	4.0	4.2	4.0
34 Printing and editing paper	1.3	3.5	2.7	1.1	3.1	2.4	1.1	3.5	2.7
35 Chemical, rubber and plastic products	33.6	27.3	29.5	21.5	26.0	24.5	25.4	28.5	27.6
36 Non-metallic minerals	0.5	0.9	0.7	0.4	0.7	0.6	0.6	1.6	1.3
37 Basic metallic products	1.1	2.7	2.2	0.8	2.5	2.0	1.2	2.3	2.0
38 Metal machinery and equipment	15.3	19.8	18.3	12.3	22.8	19.4	17.6	22.3	20.9
39 Other industries	21.8	12.4	15.6	32.1	12.4	18.8	7.4	10.7	9.7

SOURCE: Table 3.36.

TABLE 3.37 (Brought forward)

	1979			1980			1981
	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	T O T A L
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
31 Food, beverages and tobacco	36.7	9.0	19.5	27.7	9.5	15.0	17.0
32 Textiles, cloth manufacture and leather	11.3	18.3	15.7	12.0	22.5	19.3	16.4
33 Lumber and furniture	4.0	2.9	3.3	4.5	2.5	3.1	3.4
34 Printing and editing paper	0.9	4.7	3.3	3.1	6.0	5.2	4.3
35 Chemical, rubber and plastic products	20.8	26.7	24.4	24.1	24.4	24.3	28.5
36 Non-metallic minerals	2.6	3.6	3.2	0.5	3.5	2.6	6.0
37 Basic metallic products	1.3	1.3	1.3	1.3	1.3	1.3	1.1
38 Metal machinery & equipment	16.4	21.8	19.6	20.2	18.9	19.3	18.2
39 Other industries	6.3	11.7	9.7	6.6	11.4	9.9	5.1

SOURCE: Table 3.36.

TABLE 3.38

COSTA RICA'S INDUSTRIAL FOB EXPORTS

(By industrial divisions and destination of goods)

(Relative figures)

	1976			1977			1978		
	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL	REST OF WORLD	CENTRAL AMERICA	TOTAL
TOTAL	33.8	66.2	100.0	32.8	67.2	100.0	30.7	69.3	100.0
31 Food, beverages, tobacco	48.7	51.3	100.0	58.2	41.8	100.0	65.8	34.2	100.0
32 Textiles, cloth manufacture, leather	14.8	85.2	100.0	10.1	89.9	100.0	12.7	86.3	100.0
33 Lumber and furniture	43.1	56.9	100.0	30.2	69.8	100.0	30.1	69.9	100.0
34 Printing and editing paper	18.6	81.4	100.0	15.2	84.8	100.0	12.7	87.3	100.0
35 Chemical, rubber and plastic products	38.6	63.4	100.0	28.6	71.4	100.0	28.4	71.6	100.0
36 Non-metallic minerals	27.0	73.0	100.0	17.6	82.4	100.0	15.0	85.0	100.0
37 Basic metallic products	17.8	82.2	100.0	13.4	86.6	100.0	19.1	80.9	100.0
38 Metal machinery and equipment	28.2	71.8	100.0	20.8	79.2	100.0	26.0	74.0	100.0
39 Other industries	47.2	52.8	100.0	55.8	44.2	100.0	23.4	76.6	100.0

SOURCE: Table 3.36.

TABLE 3.38 (Brought forward)

	1979 REST OF WORLD	1979 CENTRAL AMERICA	1979 TOTAL	1980 REST OF WORLD	1980 CENTRAL AMERICA	1980 TOTAL
TOTAL	37.8	62.2	100.0	30.6	69.4	100.0
31 Food, beverages, tobacco	71.3	28.7	100.0	56.3	43.7	100.0
32 Textiles, cloth manufacture and leather	27.3	72.7	100.0	18.7	81.3	100.0
33 Lumber and furniture	45.9	54.1	100.0	44.1	55.9	100.0
34 Printing and editing paper	10.5	89.5	100.0	18.4	81.6	100.0
35 Chemical, rubber and plasctic sustances	32.1	67.9	100.0	30.4	69.6	100.0
36 Non-metallic minerals	30.6	69.4	100.0	6.7	93.3	100.0
37 Basic metallic products	38.2	61.8	100.0	29.9	70.1	100.0
38 Metal machinery and equipment	30.9	69.1	100.0	32.0	68.0	100.0
39 Other industries	24.5	75.5	100.0	20.7	79.3	100.0

SOURCE: Table 3.36.

in spite of the fact that the figures of the production volume's destination structure (Sections 3.2.2.1) show an increase of its external opening in 1981 simultaneously with a production increase, which would imply that its physical exports increased, the estimated value figures for 1981 show a reduction of the dollar amount it exported during that year in regard to 1980. This apparent contradiction could have its explanation in errors in the records, due to the effect of invoicing for lesser values or to a reduction of the dollar prices of the national products, proportionally higher than the growth of the physical exports, which is somewhat improbable.

It is important to underline the effort made by the Non-metallic minerals division to expand its exports in 1981, as a result of which it was successful in increasing the value exported the previous year (1980) by more than 100%. On the contrary, the exports of the Other industries division decreased considerably in 1981 (-47%) whilst reducing its importance as a foreign exchange generator.

3.2.6.3 TRADE BALANCE OF THE INDUSTRIAL SECTOR

Joining the figures on exports[1] and imports of the industrial sector shows the impact of this activity on the country's trade balance (Table 3.39).

The trade balance of the manufacturing sector (negative) represented up to 1980 approximately 60% of Costa Rica's exchange balance[2] (negative), but this standard of behavior was broken last year when industry's exchange inequality came to be almost twice the country's exchange balance. The arguments used previously to explain the behavior of industrial exports and imports separately, must now be jointly used to understand what has happened.

1/ Including in this case the fresh beef and sugar exports, considered as agroindustrial products.

2/ Except 1977, in which year it came to be 80% as a result of internal demand pressures.

TABLE 3.39

TRADE BALANCE OF COSTA RICA'S INDUSTRIAL SECTOR

1976-1981

(Thousands of dollars)

	1976	1977	1978	1979	1980	1981
INDUSTRIAL SECTOR'S EXPORTS 1/	255.383	302.871	314.109	371.062	478.817	497.368
	(-)	(18.6%) 3/	(3.7%)	(18.1%)	(29.0%)	(3.9%)
INDUSTRIAL SECTOR'S IMPORTS 2/	358.242	461.686	503.590	645.320	793.900	821.190
	(-)	(28.9%)	(9.1%)	(28.1%)	(23.0%)	(8.4%)
TRADE BALANCE OF INDUSTRIAL SECTOR	-102.859	-158.815	-189.481	-274.258	-315.083	-323.822
	(-)	(54.4%)	(19.3%)	(44.7%)	(14.9%)	(2.5%)
TOTAL TRADE BALANCE	-177.471	-193.266	-300.823	-462.421	-522.055	-176.2[illegible]0
INDUSTRIAL TRADE BALANCE INTO TOTAL TRADE BALANCE	0.6	0.8	0.6	0.6	0.6	1.8

1/ Beef and sugar included.

2/ Crude oil included.

3/ Figures between parentheses are growth rates with respect to the previous period.

SOURCE: Central Bank of Costa Rica. Balance of Payments.

Briefly stated, in spite of the strong devaluation of our currency in 1981 the industrial sector was not able to submit itself to a contraction of its imports to the same extent as other sectors of the economy were able to support, since it would have implied reducing and in many cases stopping the production process, abundantly fed by imported inputs. At the same time industrial exports were not able to expand rapidly since the manufacturing sector had to face restrictions imposed by its structural characteristics, (strong devotion to the highly protected internal market, high imported component, etc), to limitations resulting from the adverse situation of the world's economy and particularly of the Central American market, the main external buyer of Costa Rican industrial products, and to the uncertainty caused by the undefined economic policy in the past three years.

It is usually alleged that the impact of industrial activity on the trade balance should not be seen only through the visible figures of export and import but that one should also take into account the non-registered effect of foreign exchange savings caused by import substitution. This is a valid but weak argument if it is used to justify an indiscriminate or incomplete substitutive policy, due to the high social costs it implies. For instance, it is true that the changing of the country's import structure--giving it priority rank for industrial inputs (a rank previously belonging to final goods) was necessary to begin industrialization, but interrupting the substitutive process to other levels of industrial production has intensified submission to external factors not only to the availability of imported goods for the final consumer, but beyond the country's productive capacity, that is, beyond its income generating capacity. It is thus that the correction of the weaknesses of our industry and the reinforcement of its strong areas requires in the forthcoming years to go deeper into the industrialization process and a severe identification of activities worthwhile maintaining, promoting, or starting, among which we will undoubtedly find agroindustry.

3.2.6.4 DIVERSE TOPICS RELATED TO THE INCREASE OF INDUSTRIAL EXPORTS

The preliminary figures of the Export Promotion Survey mentioned

previously may contribute to the diagnosis of the expansion capacity of industrial exports in Costa Rica and therefore this section contains a part of the main results that were obtained. It must be remembered that the information refers expecially to medium and small-size companies which, as a matter of fact, are the ones requiring the greatest support to start or to expand their foreign sales, since the large companies are either a part of transnational corporations or due to their characteristics are better qualified to act independently in the task of increasing their exports, it they are interested in doing so.

Of the total companies interviewed (109) more than half were exporting at the beginning of 1982 (Table 3.40); however, six of these companies stated that in spite of the fact that they had exported in 1981, they stopped doing so at present.

When the non-exporting companies or those which were going to export in 1982 were consulted about the reasons for this behavior, their answers covered matters such as the limitations imposed by their costs (17%), the export payment problems (14%), lack of information (13%) and lack of financing (12%). In the item on other reasons (30%) the main limitations mentioned were insufficiency of their production, lack of raw materials and the absence of an appropriate administrative and technical resources organization to attend the external market (Table 3.41).

All companies were interviewed in regard to their availability of information on the external market. As was to be expected there were more information deficiencies in connection with the rest of the world than with the Central American market, but in both cases it was pointed out that the least known aspects are the volumes and continuity of orders that was required (62% and 53% of the answers in each market, according to the above stated order) and the financing conditions of future sales (52% and 44% of the answers in each market). (Table 3.42).

Almost three fourths of the exporting companies stated that they were financing their exports with their own resources (Table 3.43) however, a similar portion of companies interviewed assured that to export they would require credit (Tables 3.44 and 3.45). The credit resources are mainly required to finance pre-exportation (44% of the answers) and exportation tasks (32% of the answers) and to a lesser extent to expand manufacturing facilities (21% of the answers)[1/].

1/ Be it remembered that the insufficient production volumes were pointed out as an export-limiting factor.

TABLE 3.40

EXPORTING COMPANIES IN THE EXPORT PROMOTION SURVEY SAMPLE*

1982

(According to number of answers)

Exports at present	57 (52.3)
1981 exports	63 (57.8)
Total	109 (100.0)

* Preliminary figures

Figures between parentheses refer to percentage with respect to total.

Source: Economics Research Institute (Export Promotion Survey).

TABLE 3.41

PROBLEMS LIMITING EXPORTS

(According to number of answers)
1982

(In percentage)

Total	100.0
Cost	17.2
Export payment problems	14.3
Lack of exports	12.9
Financing	11.4
Not interested	7.1
Transportation	5.7
Processing	1.4
Other	30.0

* Preliminary figures

Source: Economics Research Institute.
Export Promotion Survey.

TABLE 3.42

INFORMATION ON FOREIGN MARKET*

(According to number of answers)
(In percentages)

	CENTRAL AMERICA		REST OF WORLD	
	YES	NO	YES	NO
Quality	62.4	37.6	56.4	43.6
Price	60,5	39.5	52.7	47.3
Financial Conditions of Sales	47.7	52.3	44.5	55.5
Volume and continuity of orders	46.8	53.2	37.7	62.3

* Preliminary figures

TABLE 3.43

FINANCING OF EXPORTS

(According to number of answers)

1982

(In percentages)

Self-financing	73.0
Foreign banks	7.0
National Banking System	10.0
Credit Suppliers	6.0
Other	4.0
	100.0

* Preliminary figures

Source: Economics Research Institute. (Export Promotion Survey)

TABLE 3.44

CREDIT REQUIREMENT FOR EXPORT*

(According to number of answers)

1982

(In percentages)

Requires	74.5
Does not require	25.5
	100.0

* Preliminary figures

Source: Economics Research Institute. Export Promotion Survey.

TABLE 3.45

DESTINATION OF THE REQUIRED CREDIT*

(According to number of answers)

1982

(In percentages)

Pre-export	44.2
Exportation	31.7
Expansion	20.8
Other	3.3
	100.0

* Preliminary figures

Source: Economics Research Institute (IICE).
Export Promotion Survey.

With respect to export incentives, 67% of the companies stated that they did not use the Tax Credit Certificates (CAT), whilst 93% of the firms expressed that they did not make use of the Export Increment Certificates (CIEX). Their main reason in both cases for not using such incentives was the lack of requisites to qualify as beneficiaries of same (Tables 3.46-3.48). Notwithstanding the above, over 70% of the parties that were interviewed and acquainted with both documents stated that CAT and CIEX were adequate incentives to promote exports, since they compensate similar measures adopted in other countries, constitute an acknowledgement of the effort, made by the producer and compensate export taxes. Those who had a contrary opinion alleged that the period to cash in such certificates was too long and if these are rediscounted their value decreases, besides the fact that in some cases these are not even sufficient to cover the respective export taxes and the exchange rate differential.

65% of the parties interviewed considered that the country does not have any problems with transportation for exports. Those stating that there are indeed problems, expressed that the difficulties refer mainly and in order of importance to the service cost, to the absence of direct service lines to the markets in question (which is also reflected in the costs and the delivery time of the orders), and to the reduced frequency of services (Tables 3.49 and 3.50).

Upon being consulted about the risk involved in exporting products, over 80% of those interviewed agreed that it was an activity in which there is little risk involved. (Table 3.51).

Finally, a percentage of the interviewed parties which was also over 80% stated that their firm was not interested in associating themselves with other firms for export purposes, which attitude may hinder the creation of exporters' consortiums mentioned by some to improve the country's marketing capacity abroad (Table 3.52).

In summary, the foregoing results suggest that an export promoting program should directly attack the problem of information on external markets and take into account that to achieve adequate production volumes to meet foreign orders, will require expansion of the productive capacity and quality improvement.

TABLE 3.46

UTILIZATION OF FISCAL INCENTIVES TO EXPORT*

1982

(According to number of answers)

(In percentages)

	CAT (1)	CIEX (2)
Utilizes	32.6	7.3
Does not utilize	67.4	92.7
		100.0

* Preliminary figures

(1) CAT = Tax Credit Certificate

(2) CIEX = Export Increment Certificate

Source: Economics Research Institute. Export Promotion Survey.

TABLE 3.47

REASONS FOR NOT USING FISCAL INCENTIVES TO EXPORT*

1982

(According to number of answers)

(In percentages)

	CAT (1)	CIEX (2)
Not acquainted with system	30.4	35.7
Lack of requisites	63.0	60.7
Other	6.6	5.4
		100.0

* Preliminary figures

(1) CAT = Tax Credit Certificate

(2) CIEX = Export Increment Certificate

Source: Economics Research Institute. Export Promotion Survey.

TABLE 3.48

OPINION ON CAT (1) AND CIEX (2) AS FISCAL INCENTIVES TO EXPORT*

1982

(According to number of answers)

(In percentages)

	CAT	CIEX
Adequate incentive	77.1	69.2
Not adequate	22.9	30.8
		100.0

* Preliminary figures

(1) CAT = Tax Credit Certificate

(2) CIEX = Export Increment Certificate

Source: Economics Research Institute. Export Promotion Survey.

TABLE 3.49

TRANSPORTATION PROBLEMS IN EXPORTS*

1982

(According to number of answers)

(In percentages)

There are problems	35.2
There are no problems	64.8
	100.0

* Preliminary figures

Source: Economics Research Institute. Export Promotion Survey.

TABLE 3.50

EXPORTERS TRANSPORTATION PROBLEMS*

1 9 8 2

(According to number of answers)

(In percentages)

Cost of service	35.0
There is no direct service	20.0
Frequency of service	16.7
Minimum volume required	10.0
Other	18.3

* Preliminary figures.

SOURCE: Economics Research Institute. Export Promotion Survey.

TABLE 3.51

OPINION ON EXPORTING RISK*

1 9 8 2

(According to number of answers)
(In percentages).

Very risky	18.6
Fairly risky	39.2
Little risk	42.1
	100.0

* Preliminary figures.

SOURCE: Econimics Research Institute. Export Promotion Survey.

TABLE 3.52

OPINION ON ASSOCIATION WITH OTHER COMPANIES
FOR EXPORTING PURPOSES*

(According to number of answers)
1 9 8 1
(In percentages).

Interested	18.5
Not interested	82.5

*Preliminary figures.

SOURCE: Economics Research Institute. Export Promotion Survey.

Credit seems to be a variable of great importance in stimulating exports, in which case it should be channelled mainly towards financing pre-export and export activities and towards the expansion of productive facilities.

On the other hand, transportation conditions may be converted into an export-limiting bottleneck and thus adequate measures should be adopted to prevent it. The specific problem of the cost increment caused by insufficiency of exportable volumes could be minimized by forming associated exporting companies that would program their foreign exports simultaneously; however, it must be taken into account that such an alternative could find considerable opposition from the entrepreneurs.

3.3 PROSPECTS OF THE INDUSTRIAL SECTOR.

The uncertainty environment in the economic field the country has gone through in the past to years has been to such an extent that it will be very difficult to make a correct forecast on the future evolution of any given economic field. Neither the statistical models based on passed trends nor the projections made by the industrialists themselves on the behavior of their own companies, are appropriate to make estimates under the very uncertain circumstances that have been faced by industrial firms.

The above limitations must be taken into account upon interpreting the following data. The projections are based on information of the Industrial Status Survey made in November 1981 and before presenting the respective results it is advisable to point out that this survey is designed to measure the product's evolution, so that its coverage is less in employment terms.

3.3.1 PRODUCTION

According to estimates made by the industrialists, during the first semester of this current year production will drop by -2%, following the rate shown in the last six months of 1981. (Table 3.53). It is foreseen that the most affected divisions will be Lumber, wood products, furniture and Other manufacturing industries, whilst it is expected that the division of Textiles, manufacture and leather will be the most active one.

TABLE 3.53

EVOLUTION OF THE COSTA RICAN MANUFACTURING INDUSTRY:

1981-1982*

(Variation of Physical Volume of Production with respect to same periods in previous year)

		1981		1982 1/	
		I SEM	YEAR	I SEM	YEAR
3.	Industry Total	2.6	-4.6	-2.0	1.4
31	Food, beverages, tobacco	-5.0	-3.6	2.5	0.6
32	Textiles, cloth manufacture & leather	3.4	1.5	5.6	11.6
33	Lumber, wood products, furniture	-4.2	-4.6	-12.7	-2.3
34	Paper products, printing and editing houses	7.5	-3.1	-7.5	-5.1
35	Chemical, rubber and plastic products	5.1	0.2	-6.4	0.7
36	Non-metallic minerals	-19.4	-18.7	-4.6	-4.9
37/38	Milling	-12.5	19.5	-5.2	0.4
39	Other manufacturing industries	7.3	-3.9	-18.3	-11.0

* Beef, coffee and sugar excluded

1/ Estimate made by industrialists

SOURCE: Economics Research Institute (IICE), University of Costa Rica.

Expectancies for the second semester of this year are very favorable and based mainly on the hopes for a better environment for the development of industrial activities under the present administration. It is estimated that the recovery to be achieved will be sufficient to amply compensate the unfavorable results of the first semeste , so that at the end of the year production will show a positive growth rate (1.4%). At the level of divisions, Textiles, manufacture and leather will continue being the most active one (11.6%) and Other manufacturing indus - tries the least favorable one (-11%).

It is interesting to mention that statistical evidence has shown the non-existence of defined patterns in the entrepreneurs' projections. For instance, no significant correlations were found among their estimates, the company's size, the imported component of their costs or the production percentages devoted to the internal and external markets, thus making emphasis on the effects which the uncertainty situation mentioned at the beginning has provoked on the development of the country's economic activity.

3.3.2 EMPLOYMENT

In the case of employment it is estimated that during the first semester of 1982 the number of wage-earners dropped by -2.7%, with respect to the same period of the past year, thus suggesting that the employment drop shall be slightly more accentuated than that of production (Table 3.54).

Contracting drops are foreseen for all divisions, but Milling and Other industries stand out with the highest percentages.

The foregoing results must be compared to what we know has occurred up to now. In this respect, the household survey figures show that in March 1982 an increment took place in the wage-earning population of the industrial sector equivalent to 4.4 %, with respect to the month of March 1981.

3.3.3 INVESTMENT

There are no figures to show the foreseen investment amounts; however, table 3.55 contains information which would make us expect for 1982 amounts of investments lower than those for 1981. Of the interviewed entrepreneurs, 68% stated that they would not invest this current year as to 49% that indicated the same thing last year. It is worthwhile mentioning that this is the highest percentage of answers in this respect since this same question was posed to companies forming part of the sample of the Industrial Status Survey (1976).

TABLE 3.54

COSTA RICAN MANUFACTURING INDUSTRY : EMPLOYMENT

FOR FIRST SEMESTER OF 1982

(Variations in relation to I Semester of 1981)

	Sectors	Percentage variation
3.	INDUSTRY TOTAL	-2.7
31	Food, Beverages and Tobacco	-2.8
32	Textiles, Cloth Manufacture and Leather	-0.3
33	Lumber, Wood Products and Furniture	-4.3
34	Paper products, printing & editing	-2.4
35	Chemical, Rubber and Plastic Products	-4.5
36	Non-metallic Minerals	-5.6
37/38	Milling	-2.8
39	Other Manufacturing Industries	-5.3

SOURCE: Economics Research Institute (IICE), University of Costa Rica

TABLE 3.55

INVESTMENT PROSPECTS IN FIXED ASSETS IN THE MANUFACTURING INDUSTRY IN 1981 AND 1982

	1981 1/	1982 2/
Will invest	51%	32%
Will not invest	49	68
TOTAL	100	100

1/ According to Survey on Industrial Status-June 1981

2/ According to Survey on Industrial Status-November 1981

SOURCE: Economics Research Institute (IICE), University of Costa Rica.

3.4. REACTIVATING THE INDUSTRIAL SECTOR

3.4.1 A STARTING POINT

The industrial sector can play a key part in the task of reactivating Costa Rican economy in a short term, since due to its characteristics it tends to respond more rapidly than the agricultural sector to the incentives offered to it. Now, if what prevails is the country's interests, it is not a serious attitude to propose a group of actions to stimulate industrial activity, setting aside the teachings of its own history or neglecting the consequences such actions may cause in a medium term. In other words, even though the order of priorities requires immediate action on the economic bases the country has at this time to get out of the crisis, as far as the industrial sector is concerned it is indispensable to simultaneously correct its basic defects. This can be stated by using terms that have become of common use in these cases, by saying that of the measures to be adopted to reactivate the industrial sector some belong to the dimension of the sector's conjuncture and others to its structural dimension, so that it is of utmost importance to know the nature of the problems faced in each one of such dimensions.

3.4.2 THE SHORT-TERM DIMENSION

3.4.2.1 Main Problems

The extent of the problems in general affecting national industry at this time may be separated in two groups: problems of supply and problems of demand. As far as the supply problems is concerned, the main difficulties refer in first place to the insufficiency of financial resources available to the companies in order to operate. The financial adversities were worsened by the devaluation and by the country's lack of capability to make its foreign payments. These two factors brought about a number of happenings (increment of the colones amount for servicing the companies' external debt, stricter mechanisms to buy national and foreign inputs, stricter conditions to obtain letters of credit, increase in the costs of inputs, etc) which have forced the companies to have larger volumes of working capital, which even so turn out to be insufficient for their operation. Simultaneously, the supply of credit to the industrial sector by the National Banking System disaccelerated in nominal terms during the past two years and it dropped drastically in real terms, thus contributing to making the companies' financial situation less solid. Flights of capital abroad have naturally acted decidedly in this respect.

As a result of the foregoing, production is in second place affected by the difficulties the firms have in supplying their raw materials, mainly when these are of a foreign origin and the company does not export its products.

Besides these two main problems that are hindering production we must mention as an immediate limiting factor of supply, the fact that in the opinion of the entrepreneurs the installed capacity is being used in a percentage which, under the present circumstances, is as an average relatively high. The important thing is that if they have that opinion, the possibilities of strongly increasing industrial production could not be based firmly only on the basis of a greater use of installed capacity, but in many cases new investments will be necessary. But under these circumstances perhaps what is required is an abundant credit offer to the industrial sector, since as was previously seen, in "normal" times Costa Rican industrialists were highly reluctant to assume the risk of investing their own resources, which attitude has probably worsened in the past two years. In this sense, it is also of vital importance to clearly define what the private sector has called the "rules of the game", that is, the objectives which in regard to private activity (in this case, the industrial activity) the government pretends reaching during its administration and the measures to be adopted to implement such objectives.

In regard to the demand problems, it must be pointed out that in view of the drop in the population's real income, internal demand for manufactured products has contracted, especially in the durable consumer goods manufacturing industry and in the cement products industry. The demand for the latter products could be reactivated by means of an intense housing construction program, which at the same time would have other related favorable effects.

The possibilities of expanding the internal demand for non-durable consumer goods are very difficult in a short term, since a rapid recovery of the real income would be required. But in any way, reactivating the durable consumer goods manufacturing industry based on a greater internal demand, could have disadvantageous implications as will be seen hereinafter.

The possibilities to take action on the external demand, that is, the possibilities of increasing exports, require that deficiencies regarding information on the external markets and problems related to adequate

production volumes and quality be resolved, in order to be able to successfully participate in international markets, since in many cases the production is only designed to meet internal demand. It is also required that transportation problems be solved (connections, frequencies, flexibility, etc.) and that financing facilities be granted for the pre-exportation and exportation tasks and for expanding the installed capacity, mainly to the companies that are starting to export and which have a high potential to continue exporting in the future.

3.4.2.2 Action areas

Before mentioning the areas in which action may be taken immediately and their possible implications, one must first establish a principle for action: the aid to be granted must necessarily be discriminate both at the level of industrial groupings and at the level of companies. This principle is required not only due to the limitation of funds but, what is more important, because there is a series of companies or activities which even though it is true that they could well continue operating with certain support, for several reasons it is not to the country's advantage to invest efforts in keeping them active. This justification of such principle seems ethereal; however, in practice, observance of certain indicators may guide the selecting of the companies which it is worthwhile saving from bankruptcy. One could suggest, for instance, capitalization for the past ten years (reinvestment of profits), value-added, share of wages within the value-added, generated employment, percentage exported, exporting potential, imported component, protection received at present and possibilities of subsistence with lower levels in the future (foreseeing substitution of intermediate goods).

On the other hand, implementing the principle is not difficult either: the banks of the National Banking System have sufficient technical personnel that is capable of carrying out that task under supervision, or an ad-hoc committee may be appointed, made up of members of private enterprise and the State, to make such selection.

With respect to the nature of the aid, the problems pointed out clearly show that the difficulties concerning financing and supply of raw materials must be prioritarily taken care of. In this respect there should be applied measures such as the opening of credit lines to purchase inputs, the smoothing of the export discount system and the rapid negotiation of the private sector's external debt.

As regards the granting of resources for investment, past experience seems to suggest that it is necessary to establish rigid controls to insure the use of the resources as planned.

It is possible that in many cases there will be situation in which the company requiring the resources both for investment and operation does not have the solvency requisites that are considered reasonable. In such cases the financial information should be complemented with indicators such as those previously mentioned, since otherwise the respective aid might not reach those for which it is really intended.

In accordance with the foregoing considerations, a selection shall be attempted of the activities towards which the aid should be directed and starting points shall be given for the discussion on the implications it could possibly have in a short term.

The primary selection criterion is the percentage of the value added by each activity to industrial production, keeping in mind the effects which its greater strength would provoke on national income. Following this criterion by means of a first approach, the following four key industrial divisions are identified, which without considering the traditional agroindustry (processing plants, mills, slaughterhouses and beef packing plants) generated close to 80% of the value added by industry in 1980: Food, beverages and tobacco (37%), Textiles, Cloth manufacture and leather (11%), Chemical, rubber and plastic products (19%) and Milling (11%).

If observed in more detail the criterion's application will permit identifying the following nine key groupings to which it would be advisable to grant priority: Food, textiles, manufacture, lumber, printing houses, manufacture of other chemical products, manufacture of cement and concrete products, manufacture of electric machinery and manufacture of transportation material. Jointly these groupings generate 36% of the value-added by the industrial sector in 1980 and as can be appreciated three of them do not appear in the selection by divisions, namely: lumber, printing houses and manufacture of cement and concrete products. Tables 3.56 and 3.57 summarize information which is of interest for purposes of economic policy and based thereon some comments can be made on the implications involved in furthering the mentioned activities.

3.4.2.3 KEY DIVISIONS AND GROUPINGS FOR REACTIVATING THE INDUSTRIAL SECTOR IN A SHORT TERM.

FOOD, BEVERAGES AND TOBACCO

Generally, this division is strongly oriented towards the internal market, so that its reactivating would have to contemplate an adequate incentive to internal demand. A greater activity of this division would not tend to provoke very strong pressures on the trade balance, since the imported component of its costs is relatively low; furthermore, due to that same fact it would be encouraging the activity of the national sectors which supply most of the components of their products. As far as the installed capacity is concerned one must take into account that the possibilities of expanding their production utilizing the present facilities more intensely, are very restricted.

If the efforts are concentrated on the food industry, what has been stated with respect to internal demand and the imported component is likewise applicable. As regards installed capacity one must take into account that it may offer less options to increase production than in the case of the division as a whole.

TEXTILES, CLOTH MANUFACTURE AND LEATHER.

This division has been identified as the one with the largest external

TABLE 3.56

STRUCTURAL CHARACTERISTICS OF KEY INDUSTRIAL DIVISIONS FOR REACTIVATING THE INDUSTRIAL SECTOR IN A SHORT TERM

1 9 8 1

D I V I S I O N	PERCENTAGE OF VALUE-ADDED OF INDUSTRIAL PRODUCTION	PRODUCTION PERCENTAGE INTENDED FOR DOMESTIC MARKET	UTILIZATION OF 1/ INSTALLED CAPACITY	IMPORTED COMPONENT
31 FOOD, BEVERAGES AND TOBACCO	36.6	77.2	69.4	27.6
32 TEXTILES, CLOTH MANUFACTURE, AND LEATHER	11.3	48.2	59.2	46.4
35 CHEMICAL, RUBBER AND PLASTIC PRODUCTS	18.7	65.7	72.3	70.3
38 MILLING	11.4	72.4	59.0	67.6
TOTAL	78.0			

1/ According to entrepreneurial criterion, Second Semester, 1981.

SOURCE: Tables: 3.3, 3.7, 3.8, 3.9

TABLE 3.57

STRUCTURAL CHARACTERISTICS OF KEY INDUSTRIAL GROUPS FOR REACTIVATING THE INDUSTRIAL SECTOR IN A SHORT TERM

1 9 8 1

G R O U P	PERCENTAGE OF VALUE-ADDED TO INDUSTRIAL PRODUCTION	PERCENTAGE OF VALUE-ADDED TO RESPECTIVE DIVISION	PERCENTAGE OF PRODUCTION DEVOTED TO DOMESTIC MARKET	UTILIZATION OF INSTALLED CAPACITY 1/	[illegible] CONTE[illegible]
311 10 FOOD PRODUCTS			89.2	72.4	[illegible]
321 TEXTILES	4.7	41.2	62.2	58.6	[illegible]
322 CLOTH MANUFACTURE	4.3	38.1	29.7	73.7	[illegible]
331 LUMBER	4.3	54.1	61.5	62.4	[illegible]
342 PRINTING HOUSES	5.3	65.8	76.6	85.2	[illegible]
352 OTHER CHEMICALS	5.7	30.3	56.3	64.3	[illegible]
369 OTHER NON-METALLIC MINERALS	3.5	84.4	93.3	55.7	[illegible]
383 ELECTRIC MACHINERY	3.5	30.6	63.9	67.9	[illegible]
384 TRANSPORTATION MATERIALS	4.3	37.6	81.5	38.0	[illegible]
T O T A L	35.6				

1/ According to entrepreneurial judgment, second semester, 1981.

SOURCE: Central Bank of Costa Rica: Industrial Production figures.
Economic Research Institute of the University of Costa Rica: Survey on Industrial Status.

opening. From this viewpoint its reactivating requires appropriate incentives both in the external and internal markets, but the truth of the matter is that it depends to a lesser extend on the latter than the food products industry. Although close to half of its costs are of an imported origin, the possibilities of increasing its exports could oppose unfavorable effects of its reactivating, on the country's trade balance.

On the other hand, even though the margin to increase production offered by its installed capacity is greater than in the case of the food products industry, it is not very ample, so that it may require new investments.

Orienting efforts towards the groupings of textiles and cloth manufacture bring in certain variants as far as installed capacity and the markets to be stimulated are concerned. The textile industry is more oriented toward the internal market than the division's average; however, it is a case of production of intermediate goods. To a great extent its reactivating is connected with the reactivating of the Cloth manufacturing industry which is preeminently devoted to satisfying the external market. It is herefrom inferred that the export increment of wearing apparel would have direct favorable effects, on the balance of payments and on employment since it is a relatively labor-intensive activity with respect to the rest of the industry, and related effects, on the textile industry, to the extent the latter supplies adequate-quality material for the wearing apparel to be exported.

An aspect of much interest to be taken into account is that the margin to expand production that would be permitted by Cloth manufacturing industry's installed capacity is highly limited, if the opinion of the industrialists with respect to the number of optimum shifts to be worked in their factories is not varied, in which case resources for investment in this field would be required.

CHEMICAL, RUBBER AND PLASTIC PRODUCTS

In the case of this division we can at once concentrate on the effects stimulating the grouping of other chemical products would have, considering that the other key activity of the chemical industry is oil refining, subject to governmental decisions.

The grouping of other chemical products mainly contemplates firms manufacturing paint, pharmaceutical products and toilet articles. Its reactivating will depend to a great extent on the encouragement of internal demand, since most of its production is for the internal market. However, due to the nature of the products it manufactures, action must decidedly be taken as regards the external demand, in which case it will be necessary to take into account that the companies belonging to this grouping are subject to a great extent, to the restrictions imposed by patents, to "know how" licenses or contracts which may limit exports to markets outside the Central American area.

On the other hand, stimulating this grouping means pressing the balance of payments since it is highly dependent upon imported raw materials. Finally, the margin offered by its installed capacity to further production is fair.

MILLING

The Costa Rican milling industry is almost fully controlled by the durable consumer goods producing industry. This characteristic of its production combined with the fact that it is in a high proportion oriented to supply the national market, may make difficult its reactivating through the stimulation of internal demand, since the durable consumer goods do not tend to be located in a privileged position within the expense pattern of consumers in circumstances like the present ones. Furthermore, the milling industry greatly depends on the import of inputs, so that its reactivating would provoke a disfavorable pressure on the country's balance of payments. All these elements suggest that if the intention is to reactivate the milling industry, it must be planned to increase the export of its products, as the only way out.

If so, in a short term the utilization levels of the installed capacity will offer a fair margin to meet a greater demand, although in the specific case of manufacturing of transportation material subutilization is very high.

REMAINING KEY GROUPINGS

Reactivating the remaining groupings requires action mainly on the

internal demand. The lumber industries (especially sawmills and wood products) and the non-metallic minerals industries (cement and concrete products) could be stimulated as previously stated, through the implementing of an intensive housing construction program, in which area as a matter of fact, the country has a deficit. The imported component of these two groupings is rather reduced, so that its reactivating does not present any serious balance of payment problems. The opposite occurs with the grouping of printing houses, the imported component of which is high and at present it exports a low percentage of its production.

The possibilities of increasing production of the lumber and non-metalling minerals groupings on the basis of the present installed capacity are fair, whilst the case of the grouping of printing houses is extremely limited.

The aforesaid comments contain two reasonings: a) that keeping up the present conditions of the industrial sector its reactivating is strongly subject to a great activity of the internal demand; b) that except for three activities identified as key activities, reactivating of the industrial sector will lead to unfavorable pressures on the trade balance. Now, the internal and the regional markets have severe limitations, and furthermore, the country cannot continue facing pressures on its trade balance. It is therefore indispensable that the frontiers of the industrial sector's commerce be expanded and if one wishes to act on firm bases, what has been called its basic defects, must be corrected, thus leading us to the problems of structural dimension.

3.4.3. THE STRUCTURAL DIMENSION

3.4.3.1 MAIN PROBLEMS

The industrial sector's problems belonging to this sphere have been continuously mentioned throughout this work and are intimately related. Among the main problems we find the following ones:

a) Its high dependency on the small internal market together with its reduced tendency to export;

b) Its marked dependency on imported inputs, imposing a strong tendency to import;

c) The almost non-existence of vertical integration within the industrial sector, due to the absence of basic industries that produce intermediate and capital goods;

d) The great protection granted in many cases to the final goods substitutive industry, in detriment of the production of intermediate and capital goods when the protection is granted through tax exemptions on the imports of such goods;

e) The exiguous scientific and technological research in the field of industrial production, limiting the sector to the use of imported technologies which in many cases impose restrictions to the purchase of inputs and to the sales of products abroad and furthering the use of factors which do not adjust to the country's availability of resources.

These problems need not be discussed in greater detail and it is therefrom inferred which fields are to be acted upon, whilst the short-term reactivating process is carried out.

3.4.3.2 ACTION AREAS

i) SUBSTITUTION OF INTERMEDIATE AND CAPITAL GOODS

The progress of the process for substituting imports of intermediate and capital goods must continue for the purpose of making the activity of the manufacturing sector stronger, by means of an improved network of intra-industrial relations. In this same sense, great efforts must be made towards a more intense utilization of the country's resources, both to meet the energy needs of the industrial activity and to supply it with raw materials. In the field of a more intensive use of local raw materials the agroindustry plays a preponderant part, the strengthening of which would in turn contribute to making the agricultural activity stronger.

ii) INDUSTRIAL EXPORTS TO WORLD MARKETS

It is essential to increase industrial exports to world markets for several reasons, among which the following ones stand out:

a) in view of the dimension of the production scales required to progress in the process of substituting imports of intermediate and capital goods, it will be necessary to have a market that is larger than the internal or the regional market for the purpose of placing the respective goods;

b) neither the Central American market - due to its present political problems which will continue affecting it in the forthcoming years - nor the internal market - due to its restricted economic limits - can carry on a firm recovery of the Costa Rican industrial activity;

c) the impact which the industrial sector has been provoking on the balance of payments cannot continue being supported by the rest of the country's productive sectors.

Stimulating the formation of draw-back industries could be under these circumstances an effective means to increase industrial exports and to take advantage of the comparative advantages the country has with respect to quality and labor cost; however, the promotion of this type of industries, must prevent having its gravitation within the industrial activity from becoming too high, due to the fact of not requiring too high fixed investments, tending to be very mobile.

iii) SCIENTIFIC AND TECHNOLOGICAL DEVELOPMENT

The improvement of the industrial structure must be accompanied by a greater development in the scientific and technological fields for the purpose of preventing the indiscriminate incorporation of imported technology, since the latter procedure not only imposes the usage relations of inadequate factors for the country but frequently it also establishes restrictions to the acquisition of inputs and to exports, all at a high monetary cost.

Even though the actions in this area must be a part of a national policy on technology, the correction of the present industrial structure calls for special and immediate attention to the field of manufactures, for the purpose of preventing the presence of unwanted characteristics in the industrial structure of the future. It is worthwhile mentioning that several studies are being conducted at present and planned on technology transfer in the industrial sector, which tasks are being carried out mainly by the technology division of the National Planning Office, CONICIT and the Economic Research Institute of the University of Costa Rica.

3.5. THE INDUSTRIAL SECTOR'S INSTITUTIONAL SUPPORT FRAMEWORK.

3.5.1 PUBLIC INSTITUTIONS

Table 3.58 summarizes the main public and private institutions and their respective support tasks to the industrial activity and action areas. The work to be carried out by some of these entities is specified in more detail hereinafter.

Public institutions must basically cover the following four areas: planning, coordination, financing and development.

It would be expected that the performance of these functions takes place within a clear and orderly economic policy; however, during recent years the public action directed towards the industrial sector has characterized itself by the absence of well defined and harmonious objectives in the implementation of measures.

These deficiencies are shown in the dispersion of responsibilities, task duplications, obstacles to procedures and the preparation of annual operating plans which are not complied with by any of the institutions.

An entity must be urgently designated to coordinate the carrying out of the State's industrial policy and to rationally distribute responsibilities among the different public support institutions. An effort in this direction was made upon the integration of the "Sector of Economy, Industry and Commerce," as part of the public administration's regionalization and sectorialization plan; however, the political will and opportunity to make it operate were lacking.

3.5.2 PRIVATE INSTITUTIONS

The main private body granting support to the Costa Rican industry is the Costa Rican Chamber of Industries. The fundamental objective of this organization is really to watch over the industrialists' interests, and in this regard it has become one of the country's most important pressure groups. In addition to this strong organization there are others with less weight which represent the industrialists in specific activities, such as the food industry associations, the wearing apparel industry, the plastic and the milling industries.

TABLE 3.58

COSTA RICA: MAIN PUBLIC AND PRIVATE INSTITUTIONS GRANTING SUPPORT TO THE INDUSTRIAL SECTOR

INSTITUTION	ACTION AREA	JURIDICAL STATUS
MINISTRY OF ECONOMY AND COMMERCE 1/	Marketing of products	Public
MINISTRY OF ENERGY, MINES AND INDUSTRY 1/	Coordination and development (Granting of incentives)	Public
NATIONAL PLANNING AND ECONOMIC POLICY OFFICE	Planning of the industrial activity	Public
NATIONAL BANKING SYSTEM	Financing and establishment of the monetary and credit policy	Public
CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION	Financing	Public
COSTA RICAN DEVELOPMENT CORPORATION (CODESA)	Financing of strategic activities	Public
AGRO-INDUSTRIAL AND EXPORT BANK (BANEX)	Financing of exports to non-traditional markets	Private
CENTER FOR THE PROMOTION OF EXPORTS AND INVESTMENTS	Promotion of foreign exports and investments	Public
NATIONAL APPRENTICESHIP INSTITUTE	Formation of qualified labor at a basic level	Public
PROFESSIONAL TECHNICAL INSTITUTES	Formation of medium-level technicians	Public
COSTA RICAN INSTITUTE OF TECHNOLOGY	Formation of high-level technicians, and technological research	Public
UNIVERSITIES 2/	Formation of high-level professionals and research	Public
MINISTRY OF LABOR AND SOCIAL SECURITY	Identification of training needs and fixing of minimum wages	Public
COSTA RICAN CHAMBER OF INDUSTRIES	Representation of private entrepreneurial interests	Private
OTHER CHAMBERS AND ASSOCIATIONS	Representation of private entrepreneurial interests	Private

NOTES:

1/ As of the month of May of this current year the matters concerning economy and commerce on the one hand, and concerning industries on the other hand, were separated in two different ministerial departments.

2/ University of Costa Rica, National University, "Universidad Estatal a Distancia" (TV-Radio) and the Autonomous University of Central America (Private)

3/ Plastic Industry Association of Costa Rica (ACIP), Costa Rican Association of Exporters (ACEX), Association of Costa Rican Textiles, Costa Rican Association of Manufacturers of Cement Derivatives, Costa Rican Food Industry Association (ACIA), Costa Rican Association of Metallurgical Industrialists (ACIME), Pharmaceutical Laboratories Employers' Union, Costa Rican Clothing Manufacturers Association and the Chamber of Industries of Heredia.

3.5.3 COORDINATION BETWEEN PUBLIC AUTHORITIES AND PRIVATE REPRESENTATIVES.

In a mixed economy regime, a healthy communication between the public authorities in charge of defining and executing the governmental policies and the representatives of the private sector, may determine the success of any governmental administration for the country's well-being, that is, without implying waiving the defense of social interest. Contrary to this recommendable attitude, in recent years a tense relation has prevailed between both parties and on many occasions their dialogue was interrupted.

Notwithstanding, the government that recently assumed power has granted a prioritary nature to communication and cooperation with the representatives of private enterprise, considering that it is an indispensable condition to be successful in overcoming the crisis the country is going through. Specific steps have already been taken in this respect, not only through the strengthening of the respective dialogue but also through the appointment of mixed support commissions, such as the commission for the salvaging of the companies that are about to go bankrupt.

3.5.4 PURPOSES OF THE MAIN PUBLIC AND PRIVATE INSTITUTIONS FOR THE GRANTING OF SUPPORT TO THE INDUSTRIAL SECTOR

COSTA RICAN CHAMBER OF INDUSTRIES

- To represent and procure the unity of the country's industrialists.
- To watch over industry's evolution.
- To seek the most adequate legislation for industry's development.
- To give information of interest to industrialists.
- To render direct or indirect technical assistance.
- To analyze the problems faced by industry.
- To develop industrial exhibitions.
- To supervise the compliance with the standards and units plan that is in force by its members.
- To give advisory services on customs tariffs and on agreements entered into by the country.

This chamber was founded in 1943 and at present has over 600 members, representing close to 75% of the country's industrial investment.

CENTER FOR THE PROMOTION OF EXPORTS AND INVESTMENTS (CEMPRO)

- To promote exports.
- To identify new exportable products and persons interested in their manufacture.
- To carry out programs for the development of such production.
- To identify the problems related to exports.
- To give technical assistance and training.
- To recommend incentives to export.
- To seek opportunities for agricultural and industrial investments directed especially towards new exportable or import substitution lines.
- To permanently conduct feasibility studies on new investments and to transfer this information to the public.
- To furnish information concerning regulations, fiscal incentives, availability and cost of labor, as well as any other information that may be of interest to the entrepreneurs.

NATIONAL APPRENTICESHIP INSTITUTE (INA)

- To contribute to the country's development and to the improvement of living conditions through the formation of apprentices and training of workers.
- To carry out professional formation programs, especially for the lower income and social population groups.
- To carry out the same plans for the persons who are already forming part of the productive process, for the purpose of increasing productivity.
- To further the access of women to professional formation.
- To adapt the growth of the programs to the country's needs.
- To facilitate professional transfer of workers.

'BANCO AGROINDUSTRIAL Y DE EXPORTADORES, S. A.
(Agroindustrial and exporters Bank)

- Formed by a large quantity of small entrepreneurs and with resources made available by the agency for International Development to promote exports of non-traditional goods to non-traditional markets.
- Receives resources from third parties by means of tax-free and negotiable investment certificates.
- Grants loans to companies for working capital (6-month to one year terms)

- Makes loans in line with investment plans and authorized by the Central Bank.
- Uses a marketing firm to get markets and better prices for the goods.

MINISTRY OF LABOR AND SOCIAL SECURITY

- To formulate, conduct and coordinate government policies on matters concerning employment and wages, for the purpose of promoting a better utilization of human resources and, in turn, a better distribution of income and social justice.
- To take action tending to promote the creation of employment opportunities, improvement of the labor market, improvement of systems of information on labor, employment, human resources and wages and other actions oriented towards improving the utilization and development of the country's human resources.
- To serve as mediator in employee-employer relations.
- To promote the development of labor unions in the country.
- To promote, inspect, control and watch over the juridical norms referring to working conditions (shifts, vacations, wages, etc.).
- To grant support to the different workers' groups requiring a special treatment, such as the woman, the working minor, minority ethnic groups, etc.

NATIONAL PLANNING AND ECONOMIC POLICY OFFICE (OFIPLAN)

- To manage, orient and coordinate the operation of the National Planning System.
- To prepare the National Development Plan and the annual operating plans of each economic sector.
- To evaluate the programs and projects in which the National Development Plan is divided during their implementation and subsequently also.
- To control that the public investment programs, including those of decentralized agencies and all other public law entities, be compatible with the provisions and order of priorities that are established in the national development plans.
- To approve the initial action taken by ministries, autonomous, semi-autonomous and private entities that are regulated by the State to

obtain loans abroad.

- To promote studies of specific investment projects of the public entities.
- To formulate, identify, approve and evaluate the projects of international technical cooperation the country receives, taking into account the priorities of the development plan.

MINISTRY OF ECONOMY AND COMMERCE

MINISTRY OF ENERGY, MINES AND INDUSTRY 1/

- To further the country's industrial development.
- To promote the small family and artisan industry.
- To formulate, direct and coordinate the policy on matters concerning standardization.
- To formulate, direct and coordinate the policy on imports, foreign trade and to promote diversification of exports.
- To administer industrial legislation.
- To promote integration with other Latin American countries and with other regions of the world.
- To enter into treaties, agreements, protocols, on foreign trade, in coordination with the Ministry of Foreign Affairs and on economic integration, when deemed necessary, as well as to supervise their compliance.
- To further the country's participation in industrial exhibitions.
- To formulate, direct and coordinate mining and hydrocarbon policies.
- To administer legislation on exploration, development, transportation, industrialization, distribution and processing of renewable natural resources.

CENTRAL AMERICAN BANK FOR ECONOMIC INTEGRATION

- To study the investment opportunities created by the economic integration of the member states and to promote them by establishing the proper programming of its activities and its financing priorities.
- To act as intermediary in the making of loans and granting of credits by the governments, public institutions and companies domiciles in the member states.

1/ The Ministry of Economy, Industry and Commerce was divided into the aforestated two Ministries by the present administration.

- To obtain the gurantee of the member states for the contracting of loans and credits from other financing organizations.
- To furnish, with its own resources or with those obtained for that purpose, management, administrative and technical advisory services to the credit applicants.
- To promote long-term investments in industries of a regional nature that are of interest for the Central American market, which would contribute towards increasing the available goods for Central American interchange
- To promote service financing projects that are indispensable for the functioning of the common market.

COSTA RICAN DEVELOPMENT CORPORATION (CODESA)

- To prepare and implement specific economic development programs and projects.
- To contribute towards and to promote formation of enterprises.
- To participate in international or multinational nature programs.
- To administer, consolidate and promote technical assistance to companies.
- To grant loans to established enterprises.
- To grant endorsements to credit operations requested by the companies from other national or foreign organizations.
- To obtain loans in the country or abroad.
- To subscribe, purchase and sell company shares.

NATIONAL BANKING SYSTEM

- To cooperate in the implementation of the Republic's monetary, exchange, credit and banking policies.
- To have custody of and to manage the nation's monetary resources.
- To issue branknotes and coins in conformance with the nation's actual needs.
- To act as the advisor, financial agent and cashiers-bank of the State.
- Top level management of bank credits and their control.
- To have custody of and manage bank deposits made by the community.1/
- To prevent the existence of inactive production means in the country, looking for producers in order to put to their service the economic and technical services the system has available.

1/ Only State-owned banks, in regard to checking accounts.

4. COMMERCE, SERVICE AND CONSTRUCTION SECTOR

4.1 GENERAL CHARACTERISTICS

As a rule, when the productive sectors of an economy are classified, the commercial and service activities appear as one single sector because of the affinity of these activities. However, for the purpose of analysis, the commercial activity may have characteristics which are somewhat different from those of the rendering of services. This is the case with the Costa Rican economy and for this reason, whenever possible, these activities will be analyzed independently.

For the purposes of this analysis, the commerce and service sector is broken down into the following three components:

a) Basic services, including: electricity, water, transportation, storage, and communications.

b) Personal services, made up of the General Government, other services and other non-specified activities.

c) Commerce, including wholesale and retail trade, restaurants, hotels and finance services.

Due to the importance of the touristic activity as a generator of foreign exchange, a special analysis thereof will be made through those variables for which there is information available.

It is advisable to bring out some peculiarities of each of these components within the context of the Costa Rican economy.

Among the basic services, electricity and water are two of the most important in regard to their share in national production, as will be set forth further ahead. However, it is characterized by the prevalence of government ownership. For example,

the Costa Rican Electricity Institute is responsible for almost 90% of the generation of electric power in the country. Such government ownership has brought about a considerable expansion of the activity, in pursuit of the objectives of greater coverage of the country's territory and a greater percentage of population served, to the point that, since 1967, Costa Rica holds first place in Central America in electrification.

In the supplying of water service, another government institution (the Costa Rican Institute of Water and Sewage Service), which is a state organization, controls the rendering of these services. This is the reason why, in this study, which refers to the private sector, very little importance is attached to these two services, which are only considered in analyses of a general nature.

In regard to transportation, it holds an important share in private enterprise and for this reason it will be the subject of a carefuly analysis. Particular attention will be paid to the transportation of the national cargo and international cargo since they have a marked influence on productive activities, and also because in public passenger transportation there is also a large share of government participation.

In regard to finance services, there is the special feature that the finance sector is dominated by the nationalized banking system, which is made up of the Banco de Costa Rica, the Banco Nacional de Costa Rica, the Banco Popular y de Desarrollo Comunal,

and the Banco Anglo Costarricense. The Central Bank acts as the organization directing the credit and monetary policies. The share of other public finance institutions, such as the National Insurance Institute, the National Housing and Urbanization Institute, etc., and of the private finance companies, is comparatively small.

After determining the activities of the commerce and service sector and pointing out some peculiarities of same, the relationship of the sector to the rest of the economy will be dealt with.

Taken as a whole, the sector has a share in the GNP in the neighborhood of 50% in the 1976-1981 period (Table 4-1). Upon analyzing its components, commerce stands out since, aside from its importance as a complement of the productive activity, historically it represents close to 30% of the GNP. This is quite a high share, if it is compared with the shares of the primary activities: agriculture (20%) and industry (21%).

The other components are less important. As a matter of fact, their relative shares in the GNP range around 14% for personal services and 8.5% for Basic Services. It should be noted that the General Government is included in personal services.

If the Commerce and Service Sector is compared with the other sectors in regard to the generation of employment, it may be seen that the sector as a whole has increased its share in the

TABLE 4-1

GROSS NATIONAL PRODUCT

COMMERCE AND SERVICE SECTOR

At prices to producer

In millions of 1966 colones

	1976	1977	1978	1979	1980	19
Basic Services a/	627.1	693.8	763.5	844.2	901.1	928.
	(7.9)	(8.0)	(8.3)	(8.8)	(9.3)	(10.
Commerce b/	2365.1	2666.4	2790.3	2929.5	2944.6	2680.
	(30.0)	(31)	(30.5)	(30.5)	(30.6)	(28.
Personal Services c/	1155.1	1222.2	1276.1	1345.1	1396.5	1381
	(14.6)	(14.3)	(14.0)	(14.0)	(14.4)	(14.
T O T A L	4147.3	4582.4	4829.9	5118.8	5223.0	4990.
	(52.6)	(53.4)	(53.0)	(53.4)	(54.3)	(53.
G N P	7884.8	8586.9	9125.1	9575.8	9636.4	9290.

NOTE: The figures in parentheses refer to the relative share of the GNP.

a/ Includes electricity, water, transportation, storage and communications.

b/ Includes wholesale commerce, retail commerce, restaurants, hotels and finance services.

c/ Includes the central government, personal services and activities not clearly specified.

SOURCE: Costa Rica Central Bank. National Accounts.

past few years, to the point of representing 49.4% in 1981. This again brings out the importance of the government as employer, since the most dynamic item is personal services which, as stated before, includes the government. On the other hand, commerce and basic services lose their relative importance, which confirms the fact that these sectors released workers in the last year (Table 4.2).

It is interesting to contrast these employment figures with those of wages paid, shown in Table 4-3, from which it is inferred that the commerce and service sector is the one that pays the best wages in the economy. This is evident from the fact that in 1981 it held 49.4% of the workers, it paid them the equivalent of 66.2% of overall wages. The evolution of wages by activity will be analyzed further ahead.

The last aspect to be considered under the general characteristics is the Gross Formation of Capital which, unfortunately, must be dealt with in nominal terms because there is no appropriate deflator available to analyze it in real terms. In any event, analyzed with this limitation, the commerce and service sector has contributed, each year, close to 70% of total investment. It must be stressed that basic services and personal services alone account for almost half of overall investment. This is due to the fact that the former includes, among others, investment in hydro-electric projects, and the latter includes government investment in personal services, such as hospitals, schools, etc.

TABLE 4-2

WORKING POPULATION[a] BY ACTIVITY SECTOR

Relative figures

ACTIVITY SECTOR	1976	1977	1978	1979	1980	1981
Agriculture	34.6	32.9	30.3	28.6	27.4	27.6
Extractive and manufacturing industries	14.6	15.8	15.1	16.3	16.3	15.4
Construction	6.5	6.4	7.4	7.7	7.8	6.7
Basic services	5.7	5.5	6.1	5.7	6.5	5.6
Commerce	16.4	17.5	17.8	17.7	18.1	17.9
Personal services	21.7	21.7	23.1	23.7	23.6	25.9
Commerce and services	(43.8)	(44.7)	(47.0)	(47.1)	(48.2)	(49.4)
Activities not clearly specified	0.5	0.2	0.2	0.3	0.3	0.9

(a) July of each year.

SOURCE: Ministry of Labor. National Survey on Homes, Employment and Unemployment.

TABLE 4-3

TOTAL MONTHLY WAGES PAID IN THE COUNTRY BY ACTIVITY SECTOR (a)

-Relative figures-

	1976	1977	1978	1979	1980
Agriculture	8.9	10.1	9.7	9.5	9.5
Extractive and manufacturing industries	21.1	20.4	20.2	19.8	19.8
Construction	4.5	4.4	4.6	4.8	4.5
Basic services	4.1	3.9	3.8	3.8	3.7
Commerce	20.3	20.3	20.2	20.0	19.8
Personal services	41.1	40.9	41.5	42.0	42.7
Commerce and services	(65.5)	(65.1)	(65.5)	(65.8)	(66.2)

(a) Refers to an average paid monthly.

SOURCE: Ministry of Labor. The Economic Activity and its relation to wages. April, 1982.

TABLE 4.4

GROSS CAPITAL FORMATION, BY ACTIVITY SECTOR

(Relative figures)

	1976	1977	1978	1979
Agriculture	5.8	4.3	6.4	7.6
Industry	16.2	21.0	17.8	15.7
Construction	6.7	5.1	6.3	6.0
Basic services	28.8	25.3	29.0	25.7
Commerce	22.0	24.3	22.3	24.4
Personal services	20.5	20.0	18.2	20.6
Commerce and service sector	(71.3)	(69.6)	(69.5)	(70.7)

SOURCE: Costa Rica Central Bank. National Accounts.

In short, this characterization confirms the great relative importance of the sector in the economy, for which reason its variations in behavior have considerable repercussion in the overall indicators. This aspect will be seen in greater detail in the next section.

4.2 RECENT EVOLUTION AND PRESENT STATUS

Before setting forth the results of the analysis of the recent evolution and the present status, it must be pointed out that due to restrictions in the availability of information, only the behavior of production and of employment and wages for the sector as a whole were checked, leaving for later on the analysis of some specific variable activities, such as credit and investment.

4.2.1 Evolution of the Sector

From Table 4-5, showing the evolution in terms of GNP, it may be seen that, as in the agricultural/livestock and industrial sectors, the year 1977 was a period of expansion for the reasons set forth in previous chapters. The Commerce and Service sector, that year, showed a real growth rate of 10.5, which later on started to drop gradually until it reached the level of -4.6 in 1981, thus becoming the most recessive sector of the economy.

Such behavior is mainly due to the dramatic deterioration of the drive of commercial activity, which in 1981 was the activity most affected by the crisis, having reached the point

TABLE 4.5

GROSS NATIONAL PRODUCT OF

COMMERCE AND SERVICE SECTOR

Real growth rate

	1976	1977	1978	1979	1980	1981
Basic services	6.6	10.6	10.0	10.6	6.7	3.0
Commerce	6.9	12.7	4.6	5.0	0.5	-9.0
Personal services	3.6	5.8	4.4	5.4	3.8	-1.0
Total for sector	5.9	10.5	5.4	6.0	2.2	-4.6
G.N.P	5.5	8.9	6.3	4.9	6.3	-3.6

SOURCE: Costa Rica Central Bank. National Accounts.

of -9.0 real growth rate as against the previous year. Note also that the commerce and service sector had a negative growth rate that was higher than that of the overall GNP, which in said year was -3.6.

The results in regard to employment are obtained beginning in Table 4-6. Several aspects warrant being stressed. In the first place, the fact that, in spite of the drop in the relative share of the commerce and service sector in the GNP, the absorption of labor increased in 1981 by 3.8 per cent. However, in considering the components of the sector, it may be seen that basic services employed 13.8 per cent less workers than in the previous year and that commerce also reduced the hiring of labor by 0.9 per cent in contrast with personal services, where employment grew, in 1981, by 12.3 per cent. Again, this reveals the share of the government as an employer.

At the same time, it is interesting to note that, in spite of the sharp drop in employment in basic services, the production of this component increased by 3 per cent, which could be indicative of over-employment of labor in previous years. This fact must be analyzed carefully when designing policies that encourage the public sector and discourage the private sector, or vice versa.

4.2.2 Commerce

It was pointed out before that in 1981, the commercial activity had gone through a drop of 9 per cent in the value of production in real terms. However, this activity will now be analized excluding financial services. Thus it turns out

TABLE 4.6

WORKING POPULATION IN THE COMMERCE AND SERVICE SECTOR

IN THE MONTH OF JULY OF EACH YEAR

	1976	1977	1978	1979	1980	1981
Basic services	35.117	36.235	42.565	41.238	47.487	40.917
		(3.2)	(17.5)	(-3.1)	(15.2)	(-13.8)
Commerce	101.514	115.462	123.985	127.391	13.253	130.078
		(13.7)	(7.4)	(2.7)	(3.0)	(-0.9)
Personal services	137.673	144.375	161.737	172.270	173.062	194.285
		(4.9)	(12.0)	(6.5)	(0.5)	(12.3)
Total for the sector	274.304	296.072	328.287	340.899	351.802	365.280
		(7.9)	(10.9)	(3.8)	(3.2)	(3.8)

NOTE: The figures in parentheses indicate the annual growth rate.

SOURCE: Ministry of Labor and Social Security. National Survey of Homes, Employment and Unemployment.

that commerce dropped by 16.3 per cent in production.

This is readily explained because, as stated before, commercial activity evolves in accordance with the behavior of the other activities, and as shown in previous chapters, industrial production and construction dropped considerably.

Furthermore, with the contraction of imports, both of inputs and of finished goods, commerce hastened even more its recession. Thus viewed, the commercial activity turns out to be one of the activities most seriously affected by devaluation, and the loss in purchasing power of the people. One of the most frequent complaints of merchants is, precisely, the decapitalization of the businesses as a result of the increasing costs of replacing goods.

The behavior of wages in commercial activity, which may be seen in Table 2-30, indicates how these have gone down in real terms, as in the case of other sectors; but it is precisely in this activity where the loss in purchasing power is greater (18 per cent in 1981).

The rigidity of commercial wages in adjusting to the inflationary process could be based on the imminent bankruptcies and the dismissals or trimming of personnel, which lead workers to abstain from making wage demands but rather keep their jobs at low income levels. It has been noted, for example, that during the past few months an increasing number of businesses have been installing self-service methods in an effort to reduce costs by firing personnel.

TABLE 4.7

GROSS FORMATION OF CAPITAL IN THE COMMERCIAL ACTIVITY

Millions of colones in real terms*

Base: 1976 = 100

	1976	1977	1978	1979
TOTAL	4892.3	5868.1	5998.2	6523.6
	(-)	(19.9)	(2.2)	(8.8)
Commerce	249.4	491.8	259.9	298.3
	(-)	(97.9)	(-47.2)	(14.8)
Other	4642.9	5376.3	5738.3	6.225.3
	(-)	(15.8)	(6.7)	(8.5)
Share				
Commerce	5.1	8.4	4.3	4.6
Other	94.9	91.6	95.7	95.4

*The implicit deflator of the Gross Formation of Capital was used.

SOURCE: Costa Rica Central Bank. National Accounts.

Furthermore, it is important to bring out the fact that commercial wages surpass those of other sectors, with the exception of those paid in the service sector. It must be stated, however, that these figures include financial service activities.

On the evolution of investment in the commercial activity, due to the limitation in information, which is available up to 1979, it may only be stated that it held comparatively stable up to then. However, as a result of the crisis contemplated for the commercial sector in the years 1980 and 1981, investment dropped sharply, particularly if it is taken into account that the figures for this variable include inventory variations and, as stated before, commercial transactions have diminished due to liquidity problems, which often limit purchases to one fifth or less of the merchandise formerly handled. This problem has become even worse in the past two years as a result of the virtual elimination of credits from wholesalers to retailers.

Another variable of interest that is related to investment is financing, particularly the credit available to the activity.

In general, the aspect that must be stressed is that commerce gets little credit from the National Banking System. This is reflected both in the loans made to this activity and in the interest rates applied. This forces commerce to depend mainly on self-financing and on private finance companies.

This is evident from the effective loans made by the National Banking System in the period 1976-1981. (Table 4-8).

In fact, commerce's share in the overall, new

effective loans was 4.8 per cent in 1976 and went on to 7.5 in 1981. This slight growth is explained by some measures adopted in order to gradually liberalize the banking system, in the sense that the preferential treatment afforded to some activities have been eliminated gradually, thus releasing resources for commerce.

It is important to stress that, aside from the small relative share, a large part of the credit obtained by commerce comes from the finance sections, which charge higher interest than those charged by the commercial sections of the National Banking System. In fact, as shown in Table 4-8, around 70 per cent of the credit received by the commercial activity is channeled through the finance sections of the commercial banks.

At the same time, in considering the interest rates applied to the various activities (Table 2-16), it is evident that historically, the highest interest rates have been charged to commerce, both by the commercial departments and by the finance sections. This highlights the "Credit Penalization" faced by the commercial activity.

In order to have an idea of the real availability of funds for commercial activity, it is necessary to analyze the evolution of credit in real terms. As may be seen from Table 4-9, credit to commerce in real terms, for 1980 and 1981, shows decreases of 7.1 and 33.5, respectively. This confirms the restriction in credit faced by the commercial activity.

It is interesting to note that of the credit available to commerce during almost all of the period, close to 70 per cent is used for operation, that is, as working capital, and a small

TABLE 4.8

NATIONAL BANKING SYSTEM

New Loans Made in Commercial Activities

Amounts in millions of colones as at December

SOURCE / YEAR	1976	1977	1978	1979	1980	1981
Finance Sections	164.8	132.1	169.4	454.0	496.0	410.4
	(64.4)	(56.6)	(63.1)	(84.1)	(8.0)	(62.4)
Commercial Sections	91.10	101.2	99.5	85.7	124.0	246.3
	(35.6)	(43.4)	(36.9)	(15.9)	(20.0)	(37.6)
Total for Activity	255.9	233.3	268.9	539.7	620.0	656.7
Percentage to overall credit	4.8	4.0	3.9	7.5	8.6	7.5

NOTE: The figures in parentheses indicate relative shares.

SOURCE: Costa Rica Central Bank. Credit and Monetary Accounts.

part for investment. In this connection, the marked decrease in credit for investment (in real terms) in the past two years, confirms our previous statement regarding the drop in investment in the commercial activity.

As an additional analysis of commercial activity, it is interesting to consider the evolution of profit margins in order to have an idea of the profitability of said activity. It is worth stating that, legally, the Ministry of Economy, Industry and Commerce sets the maximum profit margins, both wholesale and retail. However, it may be stated in general that there is no coercive power to enforce them, so these margins show considerable variations.

To make the analysis, the difference between the wholesale price and the retail price was used, as a percentage of the wholesale price, whereby an indicator of the mark-up of the products is obtained. The analysis is limited to a few products because it is sometimes difficult to compare wholesale and retail prices.

Some agricultural products, such as yucca and tomatoes, stand out in the analysis made, because they have high margins of profit. This can be explained by the role of the intermediaries to the extent that the farmer prefers to sell the products at low prices rather than lose the crop.

Generally speaking, for most products, the behavior of the margin of profit was clearly upward, until 1979. However, for 1980 and 1981 there are marked reductions in a large part of the products analyzed. This could be indicative of the

TABLE 4.9

NATIONAL BANKING SYSTEM

NEW LOANS MADE IN COMMERCIAL ACTIVITY

Classified by Operation and Investment

Millions of colones in real terms

Base: 1976 = 100

	1976	1977	1978	1979	1980	19
TOTAL	255.9	217.0	232.0	401.3	372.6	239
		(-15.2)	(6.9)	(72.9)	(-7.1)	(-3
Investment	54.7	73.0	69.4	136.6	85.9	45
		(33.4)	(-4.9)	(96.8)	(-37.1)	(--
Operation	201.2	144.0	162.6	264.7	286.7	193
		(-28.4)	(12.9)	(62.8)	(8.31)	(-3.
RELATIVE FIGURES						
Investment	21.4	33.6	29.9	34.0	23.1	19.
Operation	78.6	66.4	70.1	56.0	76.9	81.

SOURCE: Costa Rica Central Bank. Credit and Monetary Accounts.

TABLE 4.10

MARKETING MARGIN OF SOME PRODUCTS

In percentages

PRODUCT	1976	1977	1978	1979	1980	1981
Slaughtered broilers	5.0	6.0	7.1	7.4	8.3	8.2
Butter	8.3	8.7	10.7	12.4	11.2	14.6
Cheese	12.1	14.3	23.2	46.0	25.0	9.0
Eggs	3.3	11.6	21.2	14.0	71.1	135.1
Rice	17.9	10.0	11.6	12.1	10.9	4.61
Black beans	12.6	11.6	12.8	7.2	9.9	10.3
Tomatoes	6.4	101.0	96.7	94.7	99.4	103.9
Potatoes	35.1	38.3	35.5	86.0	39.4	34.3
Yucca	41.3	98.2	82.2	86.4	105.4	95.0
Oranges	42.8	64.1	67.2	69.5	64.9	75.6
Vegetable oil	2.7	9.4	11.5	9.4	9.7	-
Vegetable lard	13.6	16.5	16.9	14.7	12.1	9.3
Ground coffee	13.2	12.3	11.4	6.7	8.6	9.7
Small Coca Cola	28.6	27.2	27.0	26.7	26.5	14.7
Domestic beer	23.0	28.8	27.6	24.3	27.1	31.8
Sugar	14.9	14.5	12.6	13.4	10.5	5.43
Ordinary salt	34.9	11.9	14.7	11.3	12.9	50.3
Brooms	19.0	21.4	23.4	25.8	19.2	3.60
Matches	14.9	13.7	15.2	15.2	16.5	13.5
Cigarettes	34.1	35.1	33.3	38.9	37.2	-
Newspapers	26.7	32.7	22.3	16.6	10.3	38.6
Toilet paper	10.2	10.5	14.6	13.5	11.7	3.0
Gasoline	10.5	10.4	9.9	10.1	6.0	5.4

SOURCE: Our own analysis based on figures by the Bureau of Statistics and Census and by the Economics Research Institute.

TABLE 4.11

MARKETING MARGIN OF SOME PRODUCTS

PRODUCT	Growth rate 76-77	77-78	78-79	79-80	80-81
Slaughtered broilers	20.01	18.3	4.23	12.1	-1.2
Butter	4.8	23.0	15.9	-9.7	30.4
Cheese	18.2	63.4	98.3	-45.6	-63.8
Eggs	251.5	82.8	-34.0	409.9	94.2
Rice	-44.1	16.0	4.3	-9.2	-57.7
Black beans	-7.9	10.3	-43.7	37.5	3.7
Tomatoes	1.478.0	-4.3	-2.1	5.0	4.5
Potatoes	9.1	-7.3	142.2	-54.2	-12.9
Yucca	137.8	-16.3	5.1	22.0	-9.9
Oranges	49.7	4.8	3.4	6.6	16.5
Vegetable oil	248.1	22.4	-18.3	3.2	-
Vegetable lard	27.3	2.4	-13.0	-17.7	-23.4
Ground coffee	-6.8	-7.3	-41.2	-28.4	12.8
Small Coca Cola	-4.9	-0.7	-1.1	-0.75	-44.5
Domestic beer	25.2	-4.2	-12.0	11.5	17.4
Sugar	-2.7	-13.1	6.3	-21.6	-48.3
Ordinary salt	-65.9	23.5	-23.1	14.2	289.8
Brooms	12.6	9.3	10.3	-25.6	-81.2
Matches	-8.0	10.9	-	8.5	-18.8
Cigarettes	2.9	-5.1	16.8	-4.4	-
Newspapers	22.5	-31.8	-25.6	-37.9	279.8
Toilet paper	2.9	39.0	-7.5	-13.3	-74.4
Gasoline	0.9	-4.8	2.0	-40.6	-10.0

SOURCE: Our own analysis based on figures by the bureau of Statistics and Census and by the Economics Research Institute.

inability of some detail merchants to adjust their prices in order to keep their margins of profit (Tables 4-10 and 4-11).

Due to the above limitations, the analysis did not include some products, such as electrical appliances, whose behavior it is important to analyze, in order to determine, to some extent, the effects of devaluation on the profit margin on these items. This is especially interesting in order to form an idea of the price setting policies that the commercial importers might be adopting during this period of crisis.

In any event, the analysis shows some important results, which give a clue to the matter of profitability of the commercial activity.

4.2.3 Finance Services

The Costa Rican finance system is made up of the National Banking System, the private banks, the private finance companies and other non-banking finance institutions.

The existence of nationalized banks is an important characteristic, not only because of the relative importance, which represents approximately 50% of the finance market in regard to the avilability of resources, but also because of the manifold functions of the State commercial banks. These banks, in addition to their role of development banks, act as deposit receivers, lenders for all kinds of activities, and they even have finance sections that independently engage in attracting and lending funds.

The importance of the private banks lies in the fact that they handle a considerable amount of resources from abroad.

The principal private banks are: Bank of Lyon, S.A., Banco de Santander, S.A., Bank of America, S.A., Banco de la Construcción, S.A., and the Banco Agroindustrial y de Exportación, S.A.

The private finance companies include a large number of companies engaged in the utilization of funds, mostly of capital contributed by the stockholders, or else foreign loans. It must be noted that in 1978, in response to the need to expedite the financial system and to make possible the mobilization of more resources, a series of regulations applicable to these finance institutions were eliminated. The regulations authorized the Central Bank to supervise and control, through the Office of the Controller General of Banks: i) the rates of interest on money borrowed and lent, ii) the make-up of their loan portfolio, iii) the cash reserves, etc.

After the 1978 amendment, only a 10% cash reserve must be maintained on loans, and this is an incentive for the development of private activity in the finance system.

In the other finance institutions are included a series of institutions, most of them public, which carry out, one way or the other, the functions of financial intermediaries. The main ones are: Instituto Nacional de Seguros (INS), Instituto Nacional de Vivienda y Urbanismo (INVU), Caja Costarricense de Seguro Social (CCSS), Instituto Nacional de Fomento Cooperativo (INFOCOOP) and Corporación Costarricense de Desarrollo (CODESA), the latter being particularly important due to the mobilization of funds it has effected during the past few years, because of its nature of development institution.

Generally speaking, the finance market has been a slightly-developed market, characterized by little flexibility, which has resulted in scant attraction of internal resources, even though in the past few years a number of measures have been adopted in an effort to gain greater flexibility and, in general, to improve its operation.

It is necessary to analyze the evolution of the financial activity in order to form an idea of the development of the Costa Rican financial system during the period under consideration.

Considering the financial activity and its relationship to national production, in real terms it has experienced a slight growth in relative share. In fact, it was 4.0% in 1976 and it went up to 4.5% in 1981. This result is explained by the relationship existing between this activity and the other productive activities whose production values, in real terms, have grown and, as stated in previous chapters, it has become an essential element for the productive activity. This circumstance may be noticed in the continual increase in investment by the National Banking System (Table 4-12). It shows how effective investment by the commercial banks went from 5,093.2 million colones in 1976 to 8,278.3 million colones in 1981, which constitutes a growth of 62.9%.

Aside from this overall evolution in the financial activity, it is important to analyze its structure throughout the period. For this purpose, let us consider Table 4-12.

TABLE 4.12

NATIONAL BANKING SYSTEM

NEW EFFECTIVE LOANS

Amounts in millions of colones

Accumulated January 1st.-December 31st.

DETAIL / YEAR	1976	1977	1978	1979	1980	1981
Agriculture	1343.4	1305.3	1531.9	1573.9	1815.4	1754.8
Livestock, hunting and fishery	668.8	873.2	1006.5	1133.3	1229.3	1125.2
Industry	1645.7	1835.6	2156.3	1703.2	1421.5	1671.6
Electricity and other	0.3	1.6	1.5	0.5	3.2	0.8
Commerce	255.9	233.3	268.9	539.7	620.0	656.7
Services, transportation and storage	727.8	579.1	543.2	715.5	566.2	911.2
Housing	221.3	287.6	415.5	517.2	433.9	398.0
Personal credit	302.8	441.5	651.2	675.4	543.3	391.3
Non-Classified credit	134.8	207.9	269.2	441.0	576.6	875.5
Credit to Foreign entities	0.1	0.0	0.0	0.0	0.0	0.0
TOTAL	5301.0	5765.1	6844.2	7229.6	7209.4	8735.1

SOURCE: Costa Rica Central Bank. Credit and Monetary Accounts.

Before interpreting the information contained in the table, it is necessary to point out some limitations. First of all, some transactions between the components of the finance system have been ignored, for the purpose of having an idea of the overall acquisition of resources by each of the elements, irrespective of whether they come from another institution of the finance system. At the same time, as regards the private finance companies, the information shown refers to those that are filed with the Office of the General Bank Auditor, and due to certain legal considerations the number of these finance companies is variable, so therefore, under this item the information is not a true picture of the real situation, but unfortunately, it is the only information available.

Bearing this in mind, the increase in the mobilization of funds is evident, to the point that it has almost trebled. This gives an idea of the expansion of the financial activity in the country, motivated, as explained before, by the importance of credit in the productive activity. Aside from the fact that in the past few years, specifically since 1978, a number of policies have been adopted in order to expedite and stimulate the Costa Rican finance system, in order to encourage the acquisition of internal resources.

Considering the evolution of the make-up of the finance system, in the 76-81 period there have been no significant variations. The importance of the national banking system has been evident, since its share has held around 70% of the entire system.

Regarding the other finance institutions, their great stability and growth is due to the fact that, to a large extent, they include public institutions which, either through internal or external financing, are assured the funds required for their activities.

In regard to the private finance companies, their relative share has apparently diminished. This could be in appearance because in reality the liberalization measures adopted in 1978 would be expected to expand their activities. However, the information does not bear out this result. This could be explained by the fact that, as previously stated, the information only includes the private finance companies filed with the Office of the Auditor General of Banks, and it is worth while pointing out that the number is variable, since the law sets forth that any such finance companies that devote less than 50% of their resources to merely finance activities (mainly loans) are exempt from submitting the monthly reports. Taking advantage of this ruling, many important finance companies have gotten out of submitting the information (suffice it to say that OFOMECO, S.A., one of the main finance companies in the country, does not file this information). Aside from this, there are a large number of finance companies operating in the country that do so outside the law. This inevitably leads us to the conclusion that the importance of the private finance companies is understimated in the available information.

One important aspect is that the government banks

TABLE 4.13

FINANCE SYSTEM

ACQUISITION OF RESOURCES

Balances in millions of colones

November

	1976	1977	1978	1980	1981
National Banking System	10044.7	12890.6	16042.5	20712.5	27491.0
	(70.3)	(70.1)	(69.2)	(69.8)	(70.9)
Other Finance Institutions	3746.9	4945.7	8453.7	8228.7	10695.7
	(26.2)	(26.9)	(27.8)	(27.7)	(27.6)
Private Finance Companies	503.8	551.2	692.8	725.4	564.9
	(3.5)	(3.0)	(3.0)	(2.5)	(1.5)
TOTAL	14295.4	18387.5	23189.0	29666.6	38751.6

NOTE: The figures in parentheses indicate relative values.

SOURCE: Costa Rica Central Bank. Credit and Monetary Accounts.

themselves, since 1971, have their own finance sections, which compete with private finance companies in attracting and investing funds, mainly for personal loans and for housing. One indicator of this competition is the different rates of interest charged and paid by the various finance institutions.

As to the rates of interest charged, the private finance companies do not hesitate to charge higher rates than those of the National Banking System because their service is faster and involves less complicated administrative procedures.

It is important to stress that the nominal rates of interest are comparatively low. Considering the inflationary process prevailing in the country, the real interest rate would be negative. (Suffice it to say that inflation in 1981 was estimated at 66%). However, this apparently has not meant a considerable reduction in the capturing of funds by the finance system, which leads to the conclusion that there is monetary illusion in Costa Rica.

As a special circumstance it is necessary to mention the National Stock Exchange. While it is true that the exchange does not operate, in every respect, as a financial intermediary, special interest must be taken in it to the extent that it plays an important role in the mobilization of resources even though, in this process, it participates only as a market to facilitate the transactions.

This institution started operating in August, 1976, and since then it has been expanding its activities quite a lot, which gives an idea of the real need that existed in the

country for an organized securities exchange.

Suffice it to say that by 1981, transactions in the exchange amounted to ₡5,557.4 million, representing a growth of 51.7% as compared with the previous year. If they are compared with the transactions in 1977 (the first full year of operation), the volume has grown about 14 times, which results corroborate the importance attained by this entity (Table 4-14).

In regard to the breakdown of the transactions, those involving foreign exchange stand out since they are the most important item every year, in spite of the fact that in June, 1981, the exchange withdrew from the exchange market.

After the purchase and sale of foreign exchange, there follow, in order of importance, transactions in time deposit certificates in local and foreign currency, and bonds issued by the public sector.

It must be pointed out that, while the exchange is an excellent facility for selling shares of private concerns, the transactions in this activity are the ones that have had the least growth, to the point that, for 1981, there is a reduction of 10.1 million colones. And there is even a decrease in the relative importance, since its share has dropped from 2.7% in 1977 to 0.1% in 1981.

The reasons for this situation include:

i) The closely-held nature of most of the corporations in Costa Rica.

ii) Under the prevailing credit facilities, it is better to look for financing from the National Banking System.

TABLE 4.14

OPERATIONS OF NATIONAL STOCK EXCHANGE

In millions of colones

DETAIL	1976	1977	1978	1979	1980	19
Bonds	3.8	110.2	89.7	53.4	85.7	51
Shares	1.4	10.8	14.9	10.0	18.1	[illegible]
Tax Credit Certificates	5.6	58.7	61.4	47.9	62.4	9
Term Deposit Certificates in National and Foreign Currency	29.7	65.1	220.9	418.8	599.2	100
Dollars	7.4	131.9	304.8	1107.4	2866.9	351
Investment Certificates	-	-	-	-	11.1	3
Mortgage Certificates	-	16.0	-	0.7	29.5	13
Promissory notes	-	-	2.0	0.6	0.5	
Bills of Exchange	-	-	0.7	0.2	-	[illegible]
Prior Deposits	-	-	-	-	6.6	1
Backlog Certificates	-	-	-	-	-	18
Term Savings Certificates	-	-	-	-	-	1
Other	0.0	0.2	0.2	2.3	0.4	2
TOTAL	47.8	392.9	694.6	1641.3	3680.4	555

SOURCE: Costa Rica Central Bank. Monetary Accounts Section.

iii) The time deposits with the banking system offer attractive interest rates and greater security and this prompts investors to put their money therein.

iv) Costa Rican businessmen in general are little inclined to make their financial statements public, and it is a well-known fact that keeping double sets of books is a widespread practice in the country.

In general, this is a deficiency in the Costa Rican business sector because the exchange has even adopted some measures lately, such as exempting any new issues by private enterprises from the payment of inscription fees, and reducing their operating costs on the exchange.

In spite of this, the expansion of the exchange's activities is commendable. Furthermore, it has diversified the securities traded. In fact, in 1981 it started trading in certificates of the "foreign exchange backlog", time savings deposit certificates issued by the Banco Popular, and time deposit certificates issued by the mutual savings and loan associations.

All of these circumstances will give an idea of the importance of the securities market in the Costa Rican finance system.

In analyzing investment in the financial activity, there arise difficulties similar to those explained in connection with the commercial activity. For this reason, only some aspects of the gross formation of capital will be commented, for the years for which information is available.

The only thing worth mentioning is the fact that in real terms, the gross investment in this activity shows a behavior that is quite stable, to the extent that its relative share of the country's total has gone up from 1.78% to 2.64% in 1979. This again bears out the expansion of this activity during these years (Table 4-15).

Due to the very nature of financial services, the financing of its activities is largely based on resources obtained from the public. In the case of the National Banking System, this is done by means of deposits in checking accounts, time deposits, etc., and in the case of the private finance companies, since they cannot receive deposits in checking accounts, they do so through shares, investment certificates or capital contributions.

However, it must be stated that, as an example of the deficiencies in their operation, finance services depend to a great extent on foreign resources. This is something that happens both in the National Banking System and the private finance companies. In fact, in 1976 foreign credit represented 20.5% of the resources available to the banking system, and from then on it showed quite a marked growth, to the point that in 1980, it represented 30% (Table 4-16).

In the case of the private finance companies, the situation is even clearer. In 1980, 45% of the resources available to them came from foreign credits. This situation is partly explained by the restrictions imposed on these finance companies for acquiring internal resources by means of deposits in checking accounts (Table 4-17).

TABLE 4.15

FINANCE SERVICES

GROSS FORMATION OF CAPITAL

Millions of colones in real terms[a/]

DETAIL	1 9 7 6	1 9 7 7	1 9 7 8	1 9 7 9
Total for the Country	4892.3	5868.1	5957.8	6523.0
Financial intermediaries	87.2	129.4	126.76	172.3
Relative share	1.8	2.2	2.1	2.6
Growth rate	-1.7	48.4	-2.0	35.9

a/ Deflated according to implicit deflator of the Gross Formation of Capital. Base: 1976 = 100.

SOURCE: Costa Rica Central Bank. National Accounts.

TABLE 4.16

ORIGIN OF RESOURCES

Balances in millions of colones

November

DETAIL / YEAR	1976	1977	1978	1979	1980
1. Absorption of Internal Funds	7863.5	9961.8	12575.4	15530.2	18355.7
2. Foreign Credits	2058.9	2086.0	3367.2	5001.2	8142.5
3. Bonds in Foreign Currency	0.0	0.0	0.0	0.0	762.0
4. Allocation of Special Drawing Rights	109.0	109.3	116.2	167.2	217.6
5. Government and Official Entity Credit	13.3	13.5	13.7	13.8	13.2
TOTAL RESOURCES	10094.7	12890.6	16042.5	20712.5	27491.0

SOURCE: Costa Rica Central Bank. Credit and Monetary Accounts.

TABLE 4.17

PRIVATE FINANCE COMPANIES*

Origin of resources

Balances in millions of colones

November

DETAIL / YEAR	1976	1977	1978	1979	1980
1. ABSORPTION OF INTERNAL FUNDS	225.6	243.7	264.3	288.8	307.5
	(44.8)	(44.2)	(38.1)	(39.8)	(54.4)
2. CREDITS RECEIVED					
From foreign banks	277.2	307.2	428.5	436.6	257.4
	(55.0)	(55.6)	(61.8)	(60.2)	(45.6)
Subsidized obligations	1.0	1.0	1.0	1.0	1.0
	(0.2)	(0.2)	(0.1)	(-)	(-)
TOTAL	503.8	551.2	692.8	725.4	564.9

* Registered at the General Bank Auditors'Office.

NOTE: The figures in parentheses indicate relative figures.

SOURCE: Our own analysis with data from the Costa Rica Central Bank. Credit and Monetary Accounts.

4.2.4 TOURISM

General aspects

The development of tourism in Costa Rica has been due to the characteristics and requirements of demand, rather than to planned action. It was not until the past few years that the government, through the Costa Rican Tourism Institute (ICT) -- a public service institution -- started to carry out planning activities, but there are still problems to be solved.

The relative scarcity of resources assigned to tourism in order to carry out its development has made it impossible to overcome certain limitations in terms of materializing diverse attractions, of marketing the touristic product, and training, among others.

The supply of touristic services is quite limited, there are quality problems both in connection with facilities and in connection with service, and in some activities, rate levels that are not on a par with the service offered.

The institutional framework is still weak, which is partly due to the lack of an effective organizational model and a suitable legislation.

Another problem is the disadvantage or difficulty in effectively placing the Costa Rican touristic product on the international travel market.

In general terms, the tourism subsector may be characterized as to growth by the following indicators:

- An annual average growth rate of tourist arrivals, of 7.2% for the past eleven years (see Table 4-18)

- A simple, present average of a little more than 900 tourists per day for external demand, with a slight seasonal variation, on the basis of the occupation of accomodations.
- An increase in the inflow of foreign exchange, which almost quadrupled during the period 1970-1980, and is growing at an average rate of 13.4% a year (see Table 4-19).
- An average tourist stay of 3.5 nights, with an average tourist expense of US$67.95 a day.
- In 1979, a total of $64.1 million went out of the country for Costa Ricans and residents travelling abroad (outbound tourism) and this figure was five times the 1970 figure.

Tourism, as an economic activity, is still only comparatively important. The increase in the inflow of foreign tourists who have visited the country has meant an inflow of foreign exchange which, in 1980, amounted to around US$79.2 million, almost four times the amount obtained in 1970.

The inflow of foreign exchange represents around 8.7% of the inflow obtained by the country for goods exported (FOB values). If such income is considered in the light of the GNP, the ratio is 2.6%.

Tourism, due to its service characteristics, generates considerable employment, which is reflected both in direct and in indirect occupation. In the former case, it takes place in activities connected with lodging, food, touristic transportation, touristic restaurants, tourist guides, etc. In the latter, in related activities such as construction, transportation, stores, etc.

The available statistics are not enough to determine the exact magnitude of touristic employment. However, SELA has estimated a figure of about 7,500 tourist-related jobs in 1980[1].

This magnitude is insignificant in terms of the country's overall employment and represents approximately 1% of the labor force.[2]

Recent and Present Evolution

Touristic Attractions: There is updated and detailed information on the inventory of National Touristic Resources, whose attractions are divided into the following categories: natural sites; cultural expressions; folklore; technical, scientific or contemporary artistic accomplishments, and programmed events.

There are few outstanding attractions that could, per se, place the country in a favorable position to share in the international travel market. However, there are varied and abundant, intermediate-level attractions at reduced distance/time, which make it possible to offer a diversified and attractive package.

The Costa Rican Tourism Institute is making available some touristic attractions and building certain basic infrastructure in connection therewith, to contribute to the development of internal tourism and, at the same time, to give support service to international tourism.

1/ Tourism Action Committee of SELA, Work Document No. 16.
2/ Ditto

TABLE 4.18

COSTA RICA: HISTORICAL EVOLUTION OF THE NUMBER OF ARRIVALS OF INTERNATIONAL TOURISTS 1979-1981

(In thousands of tourists)

YEAR	NUMBER OF ARRIVALS OF INTERNATIONAL TOURISTS	ANNUAL VARIATION %	GROWTH INDEX
1970	155	-	100.0
1971	170	9.7	109.7
1972	202	18.8	130.3
1973	247	22.3	159.4
1974	272	10.1	175.5
1975	297	9.2	191.6
1976	299	0.1	192.9
1977	328	9.7	211.6
1978	340	3.7	219.4
1979	318	-6.5	205.2
1980	332	4.4	214.2
1981	333	0.3	214.8

SOURCE: Costa Rican Tourism Institute.

TABLE 4.19

COSTA RICA: INFLOW OF FOREIGN EXCHANGE FROM INTERNATIONAL TOURISM 1970-1980

(In millions of US$)

YEAR	FOREIGN EXCHANGE INFLOW	ANNUAL VARIATION	GROWTH INDEX
1970	20.9	-	100.0
1971	23.3	11.5	111.5
1972	27.6	18.5	132.1
1973	33.6	21.7	160.8
1974	43.5	29.5	208.1
1975	55.4	27.4	265.1
1976	57.1	3.1	273.2
1977	65.1	14.0	311.5
1978	71.1	9.2	340.2
1979	72.9	2.5	348.8
1980	79.2 1/	8.6	378.9

1/ This figure must be increased by US$ 20 million in foreign exchange received annually by annuitants and pensioners living in the country.

SOURCE: Costa Rican Tourism Institute.

Touristic Facilities: This is made up of the various facilities where services required by tourists are rendered. The touristic facilities are extensive and complex because a tourist demands very diverse services.

At the present time it is estimated that there are 4267 rooms broken down into different types of logding facilities such as hotels, motels, apart-hotels, cabins and boarding houses, in Costa Rica.

Of the overall supply available, it is felt that only a group of hotels are suitable for receiving international tourists, bearing in mind the accomodation capacity and additional services they offer. The overall number of accomodations that can be considered suitable for tourists is 2413 (57% of the overall supply).

These hotels are mostly located in the center of San José, at La Uruca, San Antonio de Belén (central zone 1573 rooms) and Pacific beach areas.

Transportation: At the present time there are 10 airlines connecting Costa Rica with the rest of the countries in Central America, Panama, Colombia, Venezuela, Mexico, United States, Cuba, Puerto Rico and Spain. Furthermore, a national airline is flying to the main touristic destinations within the country.

With regard to international land transportation, there are two companies travelling through Central America and Panama. There are limited overland transportation facilities to other places within the country, suitable for tourism.

International ocean transportation for tourism is only occasional. For example, in 1981 only two cruise ships arrived at Puerto Limón.

At domestic levels there are some units making pleasure cruises but they are limited in extent and directed to only a couple of touristic destinations.

The imported component of the touristic product mainly refers to:

- Direct imports of goods and services consumed by tourists
- Indirect imports: imports of inputs which are transformed in the country and constitute part of touristic consumption.
- Direct and indirect imports of capital goods, required by hotel activities and other touristic services.
- Payments of transfers, promotion expenses abroad, repatriation of profits, payment of charges, etc.

The calculation of the amount of the imported component of the touristic product is complex, for which reason the statistics available are only partial and can only be taken as indicative.

It is estimated that the imported component of the touristic product is close to the equivalent of 36% of the inflow of foreign exchange for inbound tourism.

Notwithstanding the fact that the touristic product is the sum of services placed on the market to meet the requirements of tourists, which requires an integration of activities in order to market them better in Costa Rica, the various activities operate with very little commercial integration, with the exception of travel agencies and airlines.

Hotels, especially in view of the windfall in colones due to devaluation, act independently through their own marketing channels abroad, dealing directly with wholesale foreign agencies.

This makes it hard for most travel agencies to operate as promoters of inbound tourism, and they concentrate only on local outbound tourism (selling tickets for travel abroad).

Historical evolution of the number of international tourist arrivals (External Demand)

The external touristic demand is analyzed taking into consideration its quantitative aspects. Table 4-20 summarizes the information on international tourism that came to Costa Rica between 1970 and 1981. It may be seen that Central America is the origin of the most important portion of tourists, around 57.6%, followed by North America and Europe, which provide 21.9% and 8.6% respectively. It is important to note the drop in the share of North American tourism, which went from 25.7% in 1970 to 21.9% in 1981.

By countries, Nicaragua is where the largest number of visitors is from (29.6%). It is to be noted that this flow does not necessarily constitute touristic-motivated but in many cases, they are immigrants for political reasons (refugees). Then comes the United States, which, since 1978, shows a tendency to diminish in absolute terms. In 1981 there was a significant inflow of Panamanians, more than 48% over the previous year. The figure recorded was 48,246 persons, who posibly came into the country to buy goods, spurred by the advantage afforded by the rate of exchange.

TABLE 4.20

NUMBER OF ARRIVALS OF INTERNATIONAL TOURISTS IN COSTA RICA

BY ZONES AND COUNTRIES

YEARS: 1976-1981

ZONES \ YEARS	1976	1977	1978	1979	1980	1981	STRUCT 1981
TOTAL	299.039	327.548	340.442	317.724	332.883	333.102	100
North America	81.785	86.258	87.800	80.259	74.810	72.921	21.9
Canada	4.811	5.216	5.880	5.397	5.695	4.547	
United States	69.200	73.162	73.307	66.524	60.889	59.992	
Mexico	7.774	7.880	8.613	8.338	8.226	8.382	
Central America	165.948	182.231	191.750	170.247	191.443	191.721	57.6
Guatemala	12.336	13.657	13.914	13.515	15.247	12.475	
El Salvador	14.627	15.830	16.866	15.101	27.424	20.396	
Honduras	9.121	10.851	10.887	9.177	12.888	11.916	
Nicaragua	105.554	119.195	124.833	99.131	103.344	98.688	
Panamá	24.310	22.698	25.250	33.323	32.541	48.246	
Caribbean	2.398	2.479	2.155	3.174	6.360	6.855	2.0
South America	22.157	25.192	25.248	28.272	26.862	26.191	7.9
Europe	21.711	26.003	27.561	28.736	26.778	28.566	8.6
Other Zones	5.040	5.385	5.926	7.036	6.630	6.848	2.0

SOURCE: Ports of Entry.

TABLE 4.21

NUMBER OF ARRIVALS OF INTERNATIONAL TOURISTS IN COSTA RICA 1/

BY: MONTHS
BY: ZONES AND COUNTRIES OF NORTH AND CENTRAL AMERICA
PERIOD: 1st. QUARTER 1981-1982

ZONES	January 1981	January 1982	Variations Abs.	Variations %	February 1981	February 1982	Variations Abs.	Variations %	March 1981	March 1982*	Variations Abs.	Variations %*	1st. Q. 1981	1st. Q. 1982	Variatic Abs.
Overall total	30.223	33.517	3.294	10.9	30.639	34.043	3.404	11.1	29.133	29.169	36	0.1	89.995	96.729	6.734
North America	7.613	7.442	171	2.2	8.165	7.632	533	6.5	6.114	5.063	1.051	17.2	21.892	20.137	1.755
Canada	716	628	88	12.3	569	624	55	9.7	520	442	78	15.0	1.805	1.694	111
United States	6.260	6.157	103	1.6	6.894	6.292	602	8.7	5.044	4.181	863	17.1	18.198	16.630	1.568
Mexico	637	657	20	3.1	702	716	14	2.0	550	440	110	20.0	1.889	1.813	76
Central America	15.907	19.813	3.906	24.6	16.267	21.095	4.828	29.7	16.437	20.179	3.742	22.8	48.611	61.087	12.476
Guatemala	999	1.068	69	6.9	1.171	1.038	133	11.4	1.040	701	339	32.6	3.210	2.807	403
El Salvador	2.177	1.655	522	23.9	1.676	1.366	310	18.5	1.726	968	758	43.9	5.579	3.989	1.590
Honduras	941	1.358	417	44.3	1.114	1.396	282	25.3	1.011	1.016	5	0.5	3.066	3.770	704
Nicaragua	8.809	8.438	371	4.2	8.960	9.138	178	2.0	9.094	7.349	1.745	19.2	26.863	24.925	1.938
Panamá	2.981	7.294	4.313	144.7	3.346	8.157	4.811	143.8	3.566	10.145	6.579	184.5	9.893	25.596	15.703
Caribbean	889	288	601	67.6	1.013	369	644	63.6	1.386	257	1.129	81.5	3.288	914	2.374
South America	2.731	2.710	21	0.8	2.206	2.014	192	8.7	1.930	1.335	595	30.8	6.867	6.059	808
Colombia	1.362	1.394	32	2.3	1.084	965	119	11.0	888	624	264	29.7	3.334	2.983	351
Other	1.369	1.316	53	3.9	1.122	1.049	73	6.5	1.042	711	331	31.8	3.533	3.076	457
Europe	2.495	2.715	220	8.8	2.535	2.480	55	2.2	2.717	1.937	780	28.7	7.747	7.132	615
Other	588	549	39	6.6	453	453	...	...	549	398	151	27.5	1.590	1.400	190

SOURCE: Department of Statistics and Research COSTA RICAN TOURISM INSTITUTE.

NOTES: 1/ Revised figures.
* The month of march is not complete yet.

The number of arrivals of international tourists during the first quarter in 1982 was 96.7 thousand, which is 7.5% higher than the volume recorded in 1981 during the same period (Table 4-21). It bears noting that said variation is the result almost exclusively, of the strong increase in the inflow of Panamanians, that was in the order of 25.6 thousand, greater by 158.7% than the number for 1981. The rest of the countries showed a drop in the number of arrivals.

Prices of Services

The prices of tourist services have behaved differently, depending on the market for which they are intended.

The services intended for the inbound trade (outside tourism) are quoted in dollars or their equivalent at the open market rate, since there is freedom to fix prices or rates, particularly at first-class hotels. This has made it possible for the owners to earn high profits, to the point that some companies that were in arrears with the banking system during the four preceding years, have started to repay their past-due loans.

The travel agencies are a special case. In spite of the fact that they have liabilities in dollars with the airlines, they charge their commissions in dollars and even though their volume of business has dropped -- Costa Ricans going abroad -- their income has increased substantially.

The tourism employment structure shows the hotel activity as the main generator of employment (around 2,800 direct employees according to 1980 data, 37% of the employment generated by the touristic activity as a whole).

It is estimated that, for each direct job in the hotel activity, there are 1.5 indirect jobs generated in the remaining sectors of the economy, which would represent 4,200 indirect jobs.

It is estimated that 5% of tourism jobs are in the upper levels, 16% are middle-management jobs and 79% are basic levels.

According to the information available from direct sources of the subsector, there has been no decrease in employment in the sector due to the crisis.

National Investment (Public and Private)

The Costa Rican Tourism Institute, under its Operating Plan for 1981, has made provisions for the Basic Touristic Infrastructure Program, for a total of about ₡15.9 million.

This Program includes the following sub-programs:

- Stopover points and camps
- Lookout points
- Beach Development
- Other Projects

In addition, ICT is planning to carry out the Papagayo Gulf Project, for which will be required US$ 30 million which it is planned to obtain from outside sources.

In previous years, there were generous loans for hotels (new construction, expansion and improvements) but on projects with studies that, in many cases, were not well founded. As a result, some projects went bankrupt, others were left uncompleted, and others stopped their payments for amortization and interest.

The refinancing and extension of credits wound up as unbearable financial loads for the companies.

During the past five years, the hotels "Vista Palace" "El Sitio", "Alajuela Racquet Club" and formerly the "Chorotega Tower", closed their doors.

Furthermore, the "San José Palace", the "Playboy", the "Vista Mar" and the "Monte Alpino" stopped or postponed work.

One justification for this situation was the lack of planning for the developing and equipping, and growth was centered in the Metropolitan Area, where there was already some saturation, while the main attractions are located outside said Area.

In the past three years, there has been some investment on the Pacific Coast and, except for one case, they are aimed at demand from abroad, and now there are beginning to appear such things as "shared time" or "purchase of weeks per year".

However, at present there is a new hotel under construction in San José. It will have 220 rooms and will be operated by the Holiday Inn chain.

Foreign Investment

There is no record on foreign investment, and due to the political situation in Central America and the country's economic crisis, it would seem that there has only been some investment in capital real estate from Nationalist China.

Sources of Financing

Traditionally, only BCIE has given foreign financing and particularly for hotels.

The public sector has only been given financing for the feasibility studies and preparing of the Master Plan for the Papagayo Gulf Project.

Generally, the lines of credit are channeled through the Costa Rican nationalized banking system.

At present, the Central Bank has left in abeyance the application of the Regulations on Credits and Investment in the hotel activity in order to adopt measures intended to correct the prevailing situation, seeking both the recovery of resources and the proper operation of existing hotel supply, and the completion of some projects that are suitable for foreign tourism and good prospects for meeting their financial commitments.

At present, BCIE has also suspended its lines of credit for the Tourism Sector.

Experience in financing matters

The commercial banks gave important support to the building of hotels, with the backing of the Central Bank, for which purpose the latter prepared the Regulations on Credits and Investment for the hotel industry. The positive aspect of the experience acquired in hotel financing is that the installed capacity for touristic accomodations has been increased, and the quality of service has been improved. It also has its negative aspects in regard to location and implementation of the projects and, particularly, in regard to the recovery of the funds lent. In 1980, there was a balance to be recovered, totalling US$ 40.0 million, including past-due interest.

Considering that both the financing and the managerial attitude in the hotel business suffered fundamental errors, in the month of March of the current year, the government issued a direc-

tive recommending a drastic revision and immediate actions aimed at rescuing hotel companies that would be viable for the country's touristic development. The lines of action are:

- The banks must prevent the continuing of uncontrolled and scattered growth of hotels throughout the country, for which purpose they must stop financing new individual projects that are not contemplated in the Integral Plan for Touristic Development of the Costa Rican Tourism Institute (ICT).
- The banking system must consolidate and readjust the existing credit operations, as well as finance the completion and equipping of hotels that are required as basic touristic offering and that seem likely to be able to meet their medium- and long-term financial commitments, granting whatever terms are necessary in each case.
- The banks must promote the signing of a financing and accounting agreement for hotel companies that do not have the capability to pay the financing granted, but that meet the requirements of "basic hotel products". Lacking this, the pertinent legal steps must be taken.
- ICT must further the signing of an agreement to guarantee the administrative and operating efficiency of hotel companies offering the basic conditions required by tourists.
- The hotels having financial problems are 54, but in varying degrees. Eleven hotels of this kind stand out due to the seriousness of their problems. These hotels are located in different parts of the country.

c. Estimate of future need for financing.

In the future, there will be a need for credit for the tourist sector in the following amounts:

- For the implementation of plans for recovering loans made to the hotel sector it will be necessary to obtain outside funds amounting to US$ 21.9 million.
- In order to carry out various projects of ICT in the 1981-1982 period, US$2.9 million will be required, also from outside sources, and
- To carry out other projects, including the financing of the Papagayo Gulf Project, US$82.0 million will be required. Of this amount, US$30.3 are for the Papagayo Project. All of these funds must be obtained from outside sources.

The aforementioned demand for financial resources implies a very strong negotiating effort by Costa Rica, owing to the situation of the international money market and the corrective measures being taken in connection with the balance of payments, which will no doubt influence somewhat the priorities of the future outside borrowing by the country.

Marketing channels

International tourism is the most important kind of tourism for Costa Rica. The commercial and operating structure of tourism is concentrated on a small number of operators who, as local representatives, handle the groups originating in the issuing markets and managed by the large wholesalers of said markets.

The marketing methods being used differ, depending on whether they are public or private. The Costa Rican Tourism Institute only produces graphic material which is distributed abroad through the usual channels such as airlines, travel agencies, embassies,

consulates, some specialized magazines, and participation in specialized events (Berlin Exchange, COTAL, etc.). The effect is only relative and it is often diluted because there is no continuity or because the intensity is only slightly progressive.

The public relations activity represents a complement to promotional efforts.

The private sector in many cases is oriented toward outgoing tourism. For this reason, the complementation of public and private promotional efforts is meager.

Features of the Touristic Product

The touristic product is made up of the various attractions, goods and services that are offered to meet touristic demand.

In Costa Rica, the products that can be offered are: beach and ocean, nature (excluding beach and ocean), culture, entertainment and recreation, and purchases and services.

All of the products that are potentially exploitable are not offered. In most cases, the degree of exploitation of most touristic products offered is low.

Competitiveness of the touristic product

The competition offered by the Costa Rican touristic product in the main issuing markets is a combination of four principal factors: quality of the attractions; access to same; quality of services; and comparative price levels. In the recent past, the "political environment" factor has increased its influence significantly.

Due to the type of attractions it has, Costa Rica has access to two types of important foreign tourist flow: those

that constitute stay-over tourism with emphasis on beach, and those that constitute itinerant tourism through capitals of the subregion and short trips around them.

The former of these two types of tourism is made up largely of the demand segment that travels around the Caribbean seeking sun, sand and sea, and must therefore compete with other destinations of the Insular and Continental Caribbean.

The latter of these flows has a different motivation and a limited stay (average 2.5 days).

The competitive levels of the touristic product must be analyzed in terms of what is offered in the country for each of these flows, in comparison with alternative destinations.

In regard to the former, the natural attractions are competitive and the means of access are adequate, but the quality of the services (hotels, food, etc.), are deficient. At present, the effects of devaluation and the time lag in adjusting local prices make up the deficiencies in the quality of services. Access, especially in terms of air transportation, offer some limitations in regard to direct access from the issuing markets, but routes with services offer an adequate availability of seats. One related problem is the high cost of approximation transport, which is due to reasons beyond local control (such as fixing rates).

Itinerant tourism through capitals of the region requires the possibility of moving through several intermediate destination points. The political problems of the region have had a negative effect on Central America as a destination, both for extra-regional demand and for travel required by regional demand, even though the

latter has recently been spurred by "purchases" due to the exchange difference.

In general terms, it may be stated that the "cost" of the package is highly competitive. However, the most important local hotels set their dollar rates at the equivalent of the open-market value of this currency.

In terms of quality of the product offered, its competitive situation is lower, particularly due to the quality of the services.

Lastly, in regard to domestic demand, in spite of the fact that devaluation has considerably reduced the probability of tourism abroad, it has not been possible to materialize its potential locally due to the cost of lodging services at touristic destinations, particularly at beaches. In this connection, some lodging establishments are working with differential rates (a discount for nationals), but the practice is not widespread nor advertised enough.

The Public Institutional Framework

The ICT is the decentralized organization entrusted with the implementation of the touristic policies and with regulating the sector. However, the lack of an appropriate touristic legislation minimizes its regulating and controlling activities.

There exist regulations for the operation of travel agencies and their operation requires the approval of ICT, but such regulations were more the result of pressure by the trade in order to limit access into the market by new companies, than to a deliberate policy by the regulating institution.

There exists a classification of establishments for the purpose of being eligible for fiscal benefits and for credit, but

inclusion in the registries is voluntary for the interested parties.

In regard to the hotel business, they are free to fix rates and there is no operating classification of establishments, but only for purposes of the calculation of hotel supply.

The legislation on pensioners and annuitants (Law No.4812 of August 12, 1971) deserves special mention. A total of 6,400 persons have come into the country under this law since it was enacted. Of this figure, 4,000 are pensioners. This law is now being studied for the purpose of making some amendments intended to regulate certain deficiencies that have been observed while it has been effect.

The Private Institutional Framework

Private touristic activity is organized through the National Tourism Chamber. However, the various activities of the subsector have their own associations to protect their interests. Generally, greater importance is attached to the National Tourism Chamber (CANATUR) in the activities other than hotels, because hotel operators prefer their own association (ACHA), which is mainly due to the fact that hotel owners operate with interest that run counter to those of the remaining activities, and not in cooperation therewith. However, ACHA does not group all of the hotel operators.

Prospects

External Demand: The evolution of the first quarter in 1982 would seem to indicate that the effect of evaluation and the time lag in adjusting domestic prices will continue, for some time, to reactivate foreign inflow, especially subregional.

As long as the Central American political context does not improve, or at least does not grow worse, it will be very un-

likely that tourist inflow of North Americans will recover its former level.

The projections made by ICT toward the end of 1980 showed that for 1981, the total arrival of foreigners would be 367.3 thousand (34.2 thousand more than the figure achieved) and that number would go as high as 390.5 thousand for the year 1982, and 413.5 thousand in 1983.

A more conservative estimate in the light of the inflow achieved in 1981 and the first quarter of 1982 shows that the year 1982 could close with about 358 thousand foreign tourists, which figure would rise to 374 thousand in 1983, that is, increases of 25 thousand and 16 thousand tourists in 1982 and 1983 respectively.

The internal demand: The comparative deterioration of the real income of most Costa Rican population groups because of the inflationary process leads to the assumption that their capacity to indulge in tourism within the country will be reduced, and on the contrary, the demand for recreational activities will be increased.

On the other hand, groups with higher income, in the light of rising costs of travel abroad due to devaluation, will probably indulge to a greater extent in internal tourism.

A light evidence of this trend may be obtained from the statement made by a spokesman for the National Chamber of Restaurants and Related Activities, who said at an interview that, in spite of the worsening of the economic situation, the volume of sales had increased. He added that this was due to the fact that, due to the difficulties for travel abroad, the discretional income is used to demand more services of this type at the national level.

Supply: The short-term prospects for private hotel supply will depend, to a large extent, on the behavior of three factors: the behavior of foreign demand, the refinancing of hotels with problems and the inflationary process.

No new hotel project is on file, which is likely to be implemented within the next two years, unless there is a political decision to carry out the Papagayo Gulf project, and the necessary outside financing is obtained.

It is very likely that the Hotel Aurola, owned by Holiday Inn (280 rooms) will be completed, that the Playboy Hotel[1/] will be sold to investors who will complete the uncompleted work (another 160 rooms) and that work will be restarted on the San José Palace (258 rooms).

Regarding the rest of touristic supply (restaurants, travel agencies, transportation, etc.) they will depend to a large extent on the behavior of demand -- both local and foreign -- but there is no information available on this matter.

Income: Assuming the conservative estimate mentioned above on the inflow of foreign tourists during 1982 and 1983, and considering that the average expense can be conservatively increased by at least 10% because of the inflationary effect in dollar terms, income of foreign exchange can be estimated at US$ 93.7 million and US$ 107.6 million in 1982 and 1983 respectively.

Investment: A recent study estimated investment in the subsector for the 1981-85 period at $73.4 million in public investment and $33.4 million in private investment contemplated, according

1/ At present attached by the principal creditor, the Banco Nacional de Costa Rica.

to projects on file, which include from infrastructure (Papagayo Gulf) to hotels and Convention Center. However, the country's present economic situation may have substantially changed the intentions of the investors and promoters.

Recently, the wife of the new President of the Republic announced a fabulous project costing $600 million consisting of the construction of a "satellite city" that would operate as a tourist attraction complex. The details of this project are very scant and the information is very general. In principle, the investment would cover infrastructure, a single-rail train, internal mobilization (electric cars, horses, boats, etc.) on an artificial lake, a town (urban area) with more than 40 stores, 30 restaurants, in addition to a hotel, a golf course, duty-free stores and other facilities.

The investment would be private and would come from local and foreign sources.

It will be necessary to await further information in order to judge its viability and national benefits.

<u>The Policies of the New Government</u>: There is no clear definition of the actions that the recently-installed government of Costa Rica plans to develop, except for the statements appearing in the newspapers about ICT's intentions to promote a National Tourism Law, the amendments to the Law of Pensioners and Annuitants and the First Lady's Project.

In regard to the first of these laws, its results depend on the regulatory approach thereof, but in principle it recognizes the lack of an appropriate juridical framework for the proper organization and promotion of the subsector.

In connection with the second law (Law of Pensioners), it is intended to make its application more restrictive and selective. This, on the one hand, would eliminate the deficiencies but on the other, it would detract significantly to the "incentive" that it is supposed to represent.

As to the First Lady's Plan, mention was made above of the lack of information on which to base a sound opinion.

One government action that applies to something else but affects the subsector, is the implementation of restrictive measures for the granting of permits (visas) to enter the country, the effect of which is significantly negative to the flow of inbound tourists.

Reactivation of the Subsector

The principal restrictions

a. Situational

- Restrictions to the granting of visas
- The country's economic situation
- The financing limitations (credit and its cost)
- Lack of a National Tourism Plan
- Reduction in the real income of nationals
- Central American political situation
- Prices of services for internal tourism

b. Structural

- Inadequacy of hotel supply (location, quantity and quality)
- Limitations of external access by air (cost, capacity and routes) medium-sized companies

- Limitations for integrating a regional offering
- Lack of a legal regulation of the activity
- Slight diversity of offerings (attractions and services) actually placed on the market.

Short- and medium-term options

The options for the evolution of the subsector will be determined particularly by the economic policy measures adopted by the Costa Rican public sector in its efforts to overcome the economic crisis and by the comparative importance assigned to the subsector.

Increase in touristic offerings: It would seem that, owing to the peculiar characteristics of the activity, whose inbound tourism is considered an export activity and a great generator of jobs in projects whose capital/employment ratio is low and start showing results in a short time, the subsector could play an important role in its contribution to ease the present economic crisis in two of its most outstanding manifestations: lack of foreign exchange and growing unemployment. In order to achieve this, it is essential to have a suitable supply of beaches in order to attract tourists that stay for some time. In this connection, it would seem wise to decide on the implementation of the Papagayo Gulf project, whose studies are practically completed, the land has been acquired and a law recently approved (still unsigned by the Executive Power) whereby the "executing entity" for the project is created.

This, then, requires a political decision in this connection, limiting the State to the role of supplier of basic in-

frastructure, regulator of its development and promotor of investment. All of the development of the superstructure (hotels, restaurants, entertainment, related services, etc.) should be left to the national private sector or to foreign investment.

Under this context, the external demand should be encouraged through an appropriate promotion at the principal issuing points, and expand the means of access to the country. In this connection, adopting an open-sky policy not only would increase the availability of schedules and seats, but possibly result in a reduction in rates through competition. The recent case of Chile in this respect is revealing.

Similarly, it would be advisable to improve supply of accomodations in the main receiving center (the capital) and supplementary centers (Puntarenas and Guanacaste) by streamlining hotel projects whose construction is incomplete. In this connection, the projects should be revised and the possibility explored for the organization of a national operating company -- the majority stockholders of which could be the creditor national banks -- for running these hotels, which would operate on strictly business-like basis, following the example of the mexican state operating company.(1)

The above would facilitate foreign marketing -- for example, through a joint reservation office -- it would cut operating costs -- through joint purchases -- make it possible to integrate internal circuits using the hotels of the chain the length of the country; it would permit setting up vacational programs and promotional rates for local demand off season, which would ensure appropriate employ-

(1) Nacional Hotelera de México

ment levels, etc.

Preparing the National Tourism Plan

The work of preparing the general reference framework through which the development of the activity is encouraged, regulated and directed, is an evident need that would allow stopping the disorderly, spontaneous growth originating in the free iniciative of local investors, and adjusting the developing of public investment to the priorities thereof.

The plan could be prepared in a short time (some six months), with the help of international specialists with an adequate national counterpart that would be provided by ICT.

Preparing the National Tourism Law

A legal framework is required to regulate the activity and to permit setting the "rules of the game" for the participants in the various activities of the subsector.

Promoting the demand

In addition to the open-sky measures and the promotion of the product in demand-issuing places, other types of tourism should be promoted, which are not being operated at present.

In this connection, a request should be made to the United States to include Costa Rica in the exceptions to the law on the holding of meetings, from board of director meetings to conventions of North American companies with expenses deductible from income tax in said country, when they are held in our country. (A short time ago, Jamaica was the subject of this kind of treatment).

At the same time, take advantage of the country's natural reserves in order to promote selected tourism whose motivation would

be the peculiarities of our flora and fauna (for example, bird watchers to Bird Island).

Opening of new markets

The restrictions imposed by the Central American political situation, to the subregional touristic currents, bring out the need to resort to the promotion of other markets that have not been exploited yet and which do reach other Latin American destinations. Specifically, the promotion of European markets (mainly, Germany) and Japanese markets offers great prospects.

Similarly, bi-lateral treaties could be signed, of the kind signed with Mexico to promote flows between the two countries and profit from the experience of Mexico in the development of this activity.

4.2.5 TRANSPORTATION

In Costa Rica there are available air transport, land transport, railroad transport and ocean transport services. Of these, the former has limitations in terms of capacity and cost, and is used largely for perishable items. Land transport is limited by geographical coverage (Central America, Panama and Mexico), in addition to its increasing costs through losses, delays, interruptions, etc., as a result of the Central American political situation and the advantages given to the workers in the Panamanian case.

Railroad transport is used only within the country and its limitations are due to the inflexibility of its routes and access from the sources of production, mainly agricultural/livestock.

There is an interesting project involving the expansion of the coverage of this means of transportation, generating an alternative freight route joining the Atlantic Ocean with the Pacific Ocean through the northern plains, but this would require strong foreign financing. Said project would also pave the way for a future railroad interconnection with Central America, a project that has long been considered because of its appeal in reducing costs and mass-transportation of freight.

In connection with ocean transportation, Costa Rica follows an open-sea policy, that is, there are no controls for access by ships from all over the world, both of lines grouped into conferences and by those operating independently, and there are frequent entries and exits of firms in the market.

Two of the main problems seen as limitations to the growth

of exports in ocean transportation, (through which more than 92% of the freight entering and leaving the country is mobilized) consist in the lack of capacity available in due time, and the difficulty in exporting to new markets.

In this respect, transportation operators claim that what happens is that there is no planning of exports, which have their peak in wintertime in the Northern Hemisphere. Since there is no planning for exports, there are extraordinary demands for which no capacity has been provided, and some of the ones that require special equipment (for example, refrigerated equipment). This occurred in 1981, when exports were stimulated by devaluation.

In regard to the other of the problems, (the lack of service to new markets, particularly to the islands in the Caribbean), it is claimed that one-way service cannot be given to places where there is no flow of freight that will enable the vessels to take cargo out.

The present freight is mainly moved by international companies, since national companies are insufficient (Pan-Atlantic, Navicori and Namucar). The first mentioned hires equipment abroad; the second only has one ship and the third is a multinational of countries in the Caribbean.

Due to the size of the market, the existence of national fleets does not seem to be justified, and this means that there will be no significant investment in the near future, in this activity, at the national level. It would seem that such investment would only be justified if it were possible to share in the business of transporting oil on the Caribbean. This is handled by most of the Caribbean States through companies located in their old colonial metropolises.

As regards the rates, there is marked competition between the various lines, where those belonging to Conferences (with regular schedules and defined rates) come up against out-of-conference lines which operate with discretional rates in accordance with market conditions and volume of cargo to be transported.

In the matter of port facilities, the country has progressed substantially in the solution of its deficiencies, to the point that the surcharges that used to be applied for "port congestion" have been eliminated. At present, the Nicaraguan port of Corinto is used with no problems, but it is considered that in eight months, with the installation of the crane for containers in Caldera, only this new Costa Rican port will be used.

There are problems of pilferage in the so-called "no man's land". the area that is not covered by the Customs between its warehouses and the dock. This problem also comes up to a greater extent in the port of Puntarenas due to the kind of goods unloaded there (Japanese electrical appliances). However, the problem of pilferage is considered to be within normal levels.

An additional problem is the cost involved in operating on the Atlantic, through JAPDEVA, whom the transport operators call "tax collectors" for financing the construction of community and regional development jobs.

At present there are no problems of arrears in payments due to the practice established, of charging for freight in advance and in American currency.

The services offered cover practically all of the methods. The roll-on roll-off and container methods are gaining in importance. Soon the most important fruit companies will use only these methods.

There are deficiencies in the equipment for loading and unloading bulk goods, as required for wheat, staple cereals, etc., which makes it necessary to use conventional methods that requires a lot of time and labor.

The saving in labor in reducing from 9 to 2 the steps to move the goods with the new methods, have been solved through agreements with the dock labor unions, who charge in accordance with the tonnage even though they do not work (2 17-man crews for each ship), but this cost is more than offset by the savings obtained through the efficiency of the new methods.

4.3 Problems faced by the sector

The principal problems faced by the commerce and service sector are:

i) Lack of liquidity or disfinancing due to the fact that more money is now required to replace inventories. The transactions in money are now larger, but the physical volume handled is smaller.

ii) Importing commerce has decreased drastically due to:

a) Lack of dollars

b) Suppliers have shut off credit

c) Decrease in the internal demand by virtue of the increase in prices due to devaluation

iii) Strong dismissal of workers due to the drop in business. Some businessmen, especially large businesses, are restructuring their methods of operation, changing over to self-service in order to work with less personnel.

iv) Uncertainty regarding the future behavior of the economy, introduces lack of security and risk in the rendering of financial services, which affects both the supply and the demand thereof.

v) In the case of private finance companies, the exchange uncertainty means an important problem for those that mobilize large sums of foreign resources, to the extent that, in assuming the exchange risk, there is the possibility of suffering considerable losses.

The above considerations on the problems of the sector lead to the conclusion that the reactivation of same is going to be closely related to the stabilization of the economy as a whole, so that any stimulus to productive activities (agriculture and industry, and in general, measures that will make possible improve Costa Ricans' standard of living) will result in the most important support for the commercial and service activity.

At the same time, and for other sectors, the stabilization of the exchange market is a top-priority need in order to improve the difficult situation in which the sector finds itself. The achievement of this stabilization will have both indirect effects by stimulating other activities, and also direct effects on the activities of the sector.

4.4 INSTITUTIONAL FRAMEWORK

There are a number of public institutions that, one way or another, cooperate in the operation of private enterprise in the commerce and service sector. Due to the difference in the nature of these two activities, it is advisable to make separate analyses of the support institutions.

4.4.1 COMMERCE

At the public level, a considerable number of institutions give indirect support to this activity. However, we will analyze the activities that have the greatest bearing on the development of commerce.

MINISTRY OF ECONOMY, INDUSTRY AND COMMERCE

In connection with the promotion and control of the commercial activity, the following functions stand out:

1) Promote internal commerce by marketing methods that will encourage the consumption of national products.

2) Draw up, direct and coordinate policies on prices, weights and measures for supplies, and market for internal commerce.

3) Draw up, direct and coordinate policies on imports and foreign trade.

4) Administer commercial legislation.

5) Promote the integration of Latin American countries and other regions of the world.

6) Sign treaties, conventions and protocols on foreign trade, in coordination with other institutions.

7) Draw up, direct and supervise the implementation of policies in regard to domestic and foreign tourism, such implementation being entrusted to the Costa Rican Tourism Institute.

In order to develop all of this work, there is a subdivision by areas in order to cover and analyze each of its responsibilities in the most adequate manner.

Thus, the juridical department is entrusted with the register of representatives of foreign concerns, and of real estate brokers; the filing of charges for infringement of the law for the protection of consumers, and other functions of a juridical nature.

There is also the Executive Secretariat for Sectorial Planning, whose basic functions are issuing the guidelines for the national development plan for each sector, as well as the objectives of said plan.

The Bureau of Interior Commerce is entrusted with the advisory service to the ministry in drawing up policies in this field, including particularly:

-Fixing the cost of products and raw materials deemed necessary, as well as the rates for services and the profit margins for the marketing of products.

-Disseminate the law for the protection of consumers. Prevent speculation and any other objectionable trade practice.

-Issue the official price lists, which must be displayed by merchants. Make economic analyses regarding production, supply and marketing in internal commerce, and propose measures for regulating prices and supplies, both for finished goods and for raw materials.

-The area of foreign trade carries out similar work, but in addition it must coordinate and participate in the drawing up of bi-lateral and multi-lateral agreements with the countries in the

Central American area, as well as in drawing up customs duties and measures connected therewith.

-It must also enforce the application of the law for the promotion of exports, particularly as regards the use of tax credit certificates (CAT) and the certificate for increasing exports (CIEX) and the temporary import activities.

-Draw up amendments, extensions or revokals of trade agreements signed with non-Central American countries.

-Seek the opening of new markets for national production and seek more favorable international terms of exchange for the country.

-Keep an up-to-date control of potential capacity for exportable products.

At the same time, the Bureau of Economic Integration is charged with the drawing up of policies, juridical instruments, taxes and customs policies that will promote economic integration.

In addition to all of the above, other kinds of functions are carried out in order to cooperate, one way or another, with the development and proper operation of commerce and services.

MINISTRY OF FINANCE

As regards commerce, in addition to its general functions in tax matters, it carries out, through some of its departments, different kinds of support for commercial activity. Thus, the Bureau of Finance is entrusted with authorizing exemptions of customs duties and other taxes, as well as authorizing obligations, and terms of payment for the Treasury's debtors to pay their commitments.

In connection with foreign trade, the Bureau of Customs is in charge of the various regulations and customs provisions. Its principal functions are:

a) Perform and enforce the provisions of the code of customs legislation, Central American report and other laws and provisions connected therewith.

b) Draw up and issue the necessary instructions for the correct application of the laws in the field of customs.

c) Control, if necessary, the correct use and destination of the goods imported duty-free under the methods adopted by the competent authorities.

d) Supervise the customs and customs offices to ensure observance of the laws, regulations and instructions thereof.

e) Decide on claims submitted on the application of customs tariffs and other pertinent laws and regulations.

f) Authorize and order the inspection of goods in secondary customs areas.

In general, the functions of this Bureau are quite important in regard to foreign trade since its regulations and exemptions constitute an important element in the course of transactions with foreign firms.

Private Institutions

Chamber of Representatives of Foreign Concerns

In general, this Chamber groups businessmen who are engaged in taking orders (purchase or sale) from importer or exporter firms established locally, or who, one way or another, facilitate, promote or complete the sale of goods or services that another foreign merchant or industrialist sells or renders.

In order to promote commerce in any of its forms, the Chamber carries out different kinds of activities, mainly:

1. Advisory Service

Advisory service is given in connection with customs processing, import permits, collections, export processing, bi-lateral treaties, Central American Common Market and in general, on regulations of a legal nature which refer to the commercial activity.

2. Training

3. Protection to members

4. Dissemination services

5. Other services: such as the processing of permits to operate as representatives of foreign concerns.

In order to advise its members in whatever problems may arise, CRECEX keeps constantly in touch with officers of the Central Bank and the Bureau of Customs.

CHAMBER OF COMMERCE OF COSTA RICA

This is made up of businessmen, and activities connected with commerce, industry, service, transportation, agriculture and other related activities.

Its main objectives are:

a- Protect, cooperate with, and further the economic, social and cultural progress of the country and of its members.

b- Promote everything that fosters the development and welfare of commerce in any of its forms, and support the strengthening of commercial activity and free enterprise.

c- Propose legal measures and see that measures contrary to commerce and free enterprise are not issued.

d- Take part, on its own initiative, or as an intermediary before the public administration, to propose or support such petitions as the Chamber of Commerce or its members may submit.

For the achievement of said objectives and in general to secure the strengthening of commercial activity, the chamber carries out different activities, including:

Handling consultations by its members in matters such as: tariff, tax and wage matters, the law for the protection of the consumers, problems in land, air and sea transportation (freights, contractual terms and conditions, etc.); export and import of goods, etc., and in general any information directly or indirectly connected with commerce.

In addition, it carries out programs in matters such as:

1. Training
2. Labor Exchange
3. Conciliation in conflicts between companies
4. Promotion of Exports, in coordination with the Center for the Promotion of Exports.
5. Customs Advisory Service
6. Information and articles of interest
7. Economic and Legal Studies.
8. Work committees.

In general, the Chamber is a regulating entity that ensures the proper operation of commercial activity, protects those engaged in it, respects the consumer and takes interest in free enterprise.

Aside from this chamber, there are others of minor importance, including:

-National Chamber of Wholesale Merchants

-National Chamber of Retail Merchants

-Chamber of Agricultural/Livestock Inputs

In general, the objectives of these chambers are similar, but since they are smaller, they are less capable of developing support programs and, at the same time, less negotiating power in connection with the State.

4.4.2 SERVICES

There are many institutions that are connected with this activity and some even participate full time in the rendering of services. For an analysis, it is advisable to divide the sector into different subsectors: tourism, transportation and finance services.

In each of these subsectors, there are different circumstances that have had a bearing on the manner in which institutional support has taken. This feature will be noted in the analysis.

4.4.2.A) FINANCE SERVICES

Considering mainly the state-owned institutions, there stands out one which, because of its magnitude and development, has had decisive influence not only on the activities of the sector but, in general on the Costa Rican economy. In spite of the fact that, in regard to the finance activity, it has played a competitive and control role rather than one of support, due to its importance we must devote special attention to it.

NATIONAL BANKING SYSTEM

The National Banking System is made up of:

-Banco Central de Costa Rica

-Banco Nacional de Costa Rica

-Banco de Costa Rica

-Banco Anglo-Costarricense

-Banco Crédito Agrícola de Cartago

-The private commercial banks

In general, the principal functions of the commercial banks are:

1) Cooperate in the implementation of the monetary, exchange, credit and banking policy of the Republic.

2) Seek the liquidity, solvency and proper operation of the National Banking System.

3) In the case of State Banks, guard and administer the banking deposits of the community.

4) Try not to have in the country any inactive means of production, looking for the producer in order to place at his disposal the economic and technical means available to the System.

With this reference framework, the National Banking System plays an important role in the development of private productive activity, particularly in regard to the credit support it offers. For such purpose, the commercial banks are in a position to finance most of the productive activities, namely:

a) Operations connected with agricultural, livestock and industrial production.

b) National service companies offering tourism, transportation and information media, when these are majority-held by Costa Ricans.

c) Operations originating in the importation, exportation, purchase and sale or transportation of easily marketable goods.

d) Storage of agricultural, livestock or industrial products, or import or export goods.

e) In order to finance companies dealing with the State or with private parties, when the latter need credit support to compete with foreign concerns, provided they show that their capital stock is held by Costa Ricans.

In addition to the credit services, the Commercial Banks render another series of finance services, among which are:

a) Attracting savings. Only the State commercial banks can have savings sections entrusted with holding and managing the public's deposits in current account. This is an important service that constitutes a manner of promoting saving as well as to channel resources of surplus units into deficit units.

b) Capitalization. The State commercial banks are the only ones authorized to have capitalization sections, entrusted with the promotion and encouragement of foresight and savings, by means of capitalization contracts and the receiving of savings payments.

This constitutes another means for attracting resources that can then be used for the credit operations allowed by law.

c) Promotion of agricultural credit and the economic and social improvement of small farmers.

In addition, for the achievement of the objective set, the commercial banks can open anywhere within the national territory, agricultural credit boards or credit offices for small farmers, which will be entrusted with directing and managing the rural credit programs for small farmers in their own area.

d) Industrial Credit. Each bank can have an industrial sec-

tion entrusted with promoting the creation of new branches of industry, and the expansion of those already existing in the country, through the various operations that the law authorizes.

In this regard, the objective is the encouragement of industrial production in the country, through the creation of a specialized section to manage and channel funds for such purpose.

In addition to the activities above mentioned, the commercial banks can carry out another series of activities which, one way or another, constitute support for the private sector, including:

-Accept and endorse bills of exchange and other credit documents drawn against themselves or against third parties.

-Set up bonded warehouses, as well as carry out similar storage operations for storing products and goods in their own warehouses.

BANCO CENTRAL DE COSTA RICA

This bank is the directive entity of the National Banking System. Its nature and objectives are set up under article 4 of the Organic Law of the Banco Central de Costa Rica, namely:

"The Banco Central de Costa Rica shall promote the orderly development of the Costa Rican economy for the purpose of achieving full employment of the country's productive resources, trying to prevent or reduce inflationary and deflationary trends which could arise in the money and credit market. It shall try to keep the external stability of the national currency and ensure its convertibility, while caring for the proper use of monetary reserves of the nation for the achievement of those essential conditions of general economic stability. The Banco Central de Costa Rica is obligated to forestall inactivity in production means when

this is due to lack of timely credit, and to promote the gradual diversification of national production toward items that will strengthen the country's balance of payments."

For the achievement of such ends, article 5 of the same law sets forth the following functions:

1) Maintaining the external value and the convertibility of the national currency

2) Guard and manage the country's monetary reserves.

3) Issue bills and coins in accordance with the real needs of the economy.

4) Serve as advisor, finance agent, and bank-cashier for the State.

5) Further favorable conditions for the strengthening, liquidity, solvency and proper operation of the National Banking System.

6) Controlling money in circulation, the rates of exchange and the rates of interest.

7) Top-level direction of banking credit and supervision and coordination of the National Banking System.

8) Carrying out active and passive operations (loans and borrowings)

9) Custody of the legal cash reserves of the National Banking System and settlement of the balances of clearing activities between banks.

10) Granting authority for the operation of private banks.

11) Cooperation with economic organizations of the country for the achievement of their ends.

All of these functions are related to the general functioning of the Costa Rican economy, and therefore affect the private sector. Nobody can doubt that the private sector depends to a great extent on the motivations of the economic system in general. In addition, the support functions to the private sector that come from the National Banking System are coordinated and, in the final analysis, determined by the Central Bank. Thus, this organization becomes the central axis of the country's credit and monetary policy.

In order to have an idea of this circumstance, it will suffice to consider the various credit operations that the bank can carry out, namely:

1) Rediscount credit documents for the State commercial banks.

2) Grant to the Rural Credit Department of the Banco Nacional de Costa Rica, loans intended for financing credit operations made by the Section of Rural Credit Boards.

3) Grant loans to commercial banks, guaranteed by bonds of the public debt.

4) Grant loans to the State commercial banks, during times of emergency when the monetary and exchange stability of the country are threatened.

5) Grant loans to State commercial banks with resources coming from foreign loans.

6) Grant loans to the various public institutions, in very special cases, for a term no greater than one year.

7) Grant its security to State institutions forming part of the National Banking System, on medium- and long-term loans that they obtain with foreign finance organizations.

8) Grant its security to public institutions in transactions the latter may make with foreign finance organizations.

9) Purchase, sell and hold as investment, as open market operations, bearer securities and treasury notes.

The importance of the Banco Central de Costa Rica as directive entity of the monetary and credit policy is clearly established. Beyond a doubt, it has a decisive influence on the activities of the country's private enterprise.

It bears stressing that, in regard to finance services, the Central Bank, through the Office of the General Bank Auditor, exercises, or at least is intended to exercise, control over the various finance companies. This phase merits special consideration.

OFFICE OF THE GENERAL BANK AUDITOR

In general, this Office is entrusted with the permanent supervision and control of all of the departments and office of the Central Bank of the other banking institution of the country.

The principal responsibilities of the auditor's office, through the auditor, assistant auditor general, are:

-Control of the operations and activities of the establishments under its control, checking the books of account, inventories, checking the cash, and such verifications as it may deem it necessary.

-Ask the banks to furnish a semi-annual report on the liquidity of their portfolios.

-Oversee and control the issuance of securities, bills and coins made by the Central Bank, and all of the printing, issuance, coining, exchanging, withdrawal, cancelling, demonetizing, incinerating operations and the custody of such securities, bills and coins.

- Offer to the institutions under its control such suggestions, comments or recommendations as it may consider advisable; issue necessary instructions to correct errors, deficiencies or irregularities it may find. And adopt such measures as might be within its competence to sanction and correct any transgressions that may have been committed.

The importance that this organization has had in connection with the rendering of financial services must be stressed, since private finance companies must be registered at this organization, and also where they must submit a quarterly report of its activities and the status of their portfolios. In spite of this, it must be pointed out that many private finance companies operate outside the law, or evade the control of the Auditor's Office by other legal means, such as, for example, showing that they devote to the financing activity less than 50% of their resources.

BANKING COORDINATING COMMITTEE

This is a coordinating body between the components of the National Banking System. It studies, as a whole, problems which are common to, and most important for, the member banks of the National Banking System.

According to its regulations, the following functions pertain to it:

1) Propose solutions for coordinating the activities of the National Banking System.
2) Propose uniform policies in connection with administration and operation of the state and private banks.
3) Recommend the setting up of mechanisms, systems and pro-

cedures intended to improve the efficiency of the National Banking System and the services it renders to the public.

4) Serve as a forum for the examination of various aspects connected with the organization, the progress and the strengthening of the country's banking system.

5) Serve as a means for inter-bank liaison and communication.

For the purposes of the study of the problems of the National Banking System, the Committee appoints work committees or groups with specific functions, mainly in aspects where bank coordination is possible, namely:

1) Personnel management and compensation policies.

2) Training human resources.

3) General administration and operating procedures.

4) Data processing and informatics.

5) Specialization in certain banking services.

6) Inter-banking cooperation.

7) Bank security.

8) Study and recommendations on foreign indebtedness programs.

9) Evaluation and recommendations regarding the general policy of endorsements and guaranteeing payments.

10) Analysis and recommendations regarding the general policy of endorsements and guaranteeing payments.

There is no doubt that the objectives sought by this organization are quite important even though in some aspects it is hard to achieve the uniformity or coordination of the banking activities, because there persists the idea of competition and specialty between the various banks. However, considerable progress has been made in this field.

MINISTRY OF FINANCE

In regard to finance services, its functions are mainly related to financing with foreign resources. This is done by the Foreign Finance Bureau, whose general objectives are:

1) Centralize efforts and negotiations involving the foreign credit of the Central Government, of the public and private sector, that will require the endorsement or guarantee of the State.

2) Act as Technical Secretariat for the National Council for Foreign Financing.

3) Give advisory service to the Council for Foreign Financing and the Ministry of Finance in cooperating with and implementing policies regarding foreign credit.

4) Carry out any other function connected with foreign financing which may be assigned to it.

NATIONAL SECURITIES EXCHANGE

This institution has played a very important role in the evolution of finance services in the country, since it has provided a securities market that makes possible the channeling of resources in a more expedite manner.

This is a CODESA subsidiary and CODESA is its majority stockholder.

The main objectives are:

a) The organization, regulation, operation of commercial establishments intended to serve as locations for negotiating all kinds of securities and goods which may be traded at the Exchange.

b) Gain the participation of the largest possible number of persons in the Costa Rican capital market, facilitating the pur-

chase and sale of bonds, shares and other securities.

For the achievement of the above objectives, it has the following functions:

1) Regulate and keep in operation a technically organized stock market.

2) Set the effective quotation for the securities issued.

3) Give written evidence of the transactions carried out by the members by means of a document issued for each of them.

4) Offer stock brokers a meeting place for trading, after due registration, the purchase and sale of bonds and other obligations issued by the National Government and public law entities, obligations of duly recorded corporations, shares of duly recorded corporations, and any other securities that the Council of the Exchange considers it advisable.

5) Offer to its members and to the public whatever information it may have which is not confidential, on the entities whose securities are registered on the Exchange.

The main achievement of this institution is having created a securities market offering the necessary assurance for the development of securities transactions in the country.

The Exchange has introduced some additional facilities for the companies, such as exempting new issues made by private companies from the payment of the registration fee, and reducing the cost of operating on the Exchange.

However, the primary securities market has not developed enough but this is for other reasons, more related to the businessmen's way of thinking in the country than to the operation of the Exchange.

4.4.2.B) - TRANSPORTATION

The Ministry of Public Works and Transportation is one of the public institutions that support this activity. This must be stressed because this Ministry is the one that is closest to transportation at different levels in the country.

MINISTRY OF PUBLIC WORKS AND TRANSPORT: (MOPT)

In a general way, this ministry handles the different requirements of the country in connection with roads. In this regard, its functions are a stimulus both for the rendering of transportation services and for the other productive activities.

In this regard, the main functions are:

a) Plan, build and improve highways and roads. Maintain roads and cooperate with municipalities in the maintenance of secondary roads. Regulate and control rights of way for existing or proposed highways and roads. Regulate, control and supervise traffic, its environmental consequences and transport through public roads.

b) Plan, build, improve, maintain, operate and manage the national airports and appurtenances. Regulate and control transportation and traffic and related activities by means of a Civil Aviation Technical Council.

c) Plan, build, improve and maintain the ports and coastal traffic, the waterways, inland navigation terminals, ferry systems and similar ones. Regulate and control international maritime shipping, coastal shipping, shipping by inland waterways.

d) Regulate, control and supervise transportation by railroad and street cars.

e) Regulate and control continuous transportation of bulk goods.

Under the internal structure of the Ministry, the Transport Division is signaled out for the achievement of these functions. This Division, in a more specific way, is in charge of:

1) Ensuring observance of policies, plans and programs connected with traffic and transportation services approved by the ministry.

2) Regulate, control and supervise traffic, air transportation, international maritime shipping, coastal shipping, ferry transportation, inland waterway shipping, and transportation by public roads, as well as by street cars, pipelines or any other method which may be used in the future.

3) Direct, regulate, supervise, manage airline, ferry, coastal shipping terminals which are under the ministry.

4) Set up, control and enforce rates on the means of transportation, as well as keep in force procedures for keeping all rates permanently updated.

5) Supervise and coordinate the Civil Aviation Bureaus, Traffic Engineering, motor vehicle transportation, traffic police, water transportation, air transportation, technical studies, the Department of Railways or the section in charge thereof.

With this information, the importance of this ministry in regard to transportation becomes evident, to the point that it is unique in this field. In addition, through the Public Works Division, it carries out the direction and supervision of the building, improvement and maintenance of public works, as well as the approval

and control of all infrastructure jobs for transportation, to be built in the country which are not under the direct responsibility of the ministry.

Other institutions, which are semi-autonomous, and are connected with this activity are:

a) Refinería Costarricense de Petróleo (RECOPE)

b) Transportes Metropolitanos S.A. (TRANSMESA)

Both of them are subsidiaries of "Corporación de Desarrollo, S.A." (CODESA). The first above mentioned must be stressed because it is very important, since it is entrusted with refining and distributing fuel in the country.

At the private level, there are some chambers in this activity, including:

a) Cámara Nacional de Transportes

b) Bus company cooperatives

c) Central American Carriers' Union

d) Union of Costa Rican Taxi Operators

In general, these organizations are trade-related and their main objective is the protection of the interests of their members.

4.4.2.C) - TOURISM

In the touristic activity, the Costa Rican Tourism Institute (ICT) must be signaled out among the public institutions. ICT is the organization entrusted with the planning and development of touristic activities in the country.

COSTA RICA TOURISM INSTITUTE

It was organized as an autonomous State institution whose main

object is to increase tourism in the country:

a) By promoting the inflow and pleasant stay in the country, of foreign visitors seeking rest, amusement and entertainment.

b) By promoting the building and maintaining of accommodations and recreation places for use by tourists.

c) By carrying out abroad, the necessary advertising to make the country well known, in order to attract tourism.

d) By promoting and supervising private activity aimed at serving tourism.

It has the following functions:

a) Build, lease and manage hotels and other buildings, sports fields, and all kinds of facilities for proper entertainment of visitors and for their rest and enjoyment.

b) Direct and carry out abroad, by all suitable means, whatever advertising is necessary to make the country well known, in order to increase the inflow of visitors.

c) Promote and encourage any commercial, industrial, transport, sporting, artistic or cultural activities attempting to attract tourism.

d) Operate such means of transportations as may be necessary when it becomes indispensable to do so.

e) Protect and advertise constructions or sites of historic interest, as well as places of natural beauty or scientific importance, keeping them intact and preserving autoctonous flora and fauna in their habitat.

f) Maintain national parks wherever it may deem advisable.

g) Protect, by every means within its scope, the interests of the visitors, providing them a pleasant stay in the country.

In general, this is the institution that is entrusted with the touristic activities within the country and coming from abroad. It plans and develops the various touristic projects.

OTHER INSTITUTIONS

In addition to ICT, there is another public institution that gives support service to the touristic activity more directly: the National Training Institute. This institute, as an educational institution, prepares professionals in the field of tourism.

At the private level, there are entities such as:

a) Cámara Nacional de Turismo (CANATUR)

b) Asociación Costarricense de Hoteleros y Afines (ACHA)

c) Cámara Costarricense de Restaurantes y Afines

The activities of these entities are aimed at protecting the interest of their members, more than at the development of the touristic activity.

4.4.3 EVALUATION OF THE INSTITUTIONAL FRAMEWORK

In analyzing the institutional framework, it is advisable to do so for each of its components separately:

COMMERCE

The public institutional support for commerce is quite deficient. The meager availability of credit for commerce has already been commented on. In addition, the Ministry of Economy, Industry and Commerce concentrates more on regulatory functions than on promotion. Thus, price control, import control and other control

measures are the main relationship with commercial activity, leaving aside promotional activities, particularly in regard to foreign trade, which situation is motivated in [illegible] of other institutions, such as the Center for Promotion of Exports (CE[illegible]PO), which has similar functions.

In this connection, it must be stated that this duplication of functions is quite a widespread problem in the Costa Rican institutional framework.

As to private institutions, most of them are chambers with member-related interests, which are mainly pressure groups to protect the interests of their members against the state and juridical apparatus.

The training and development functions of these institutions are quite limited, aside from which as a rule they cover a small part of the merchants of the country, since these activities are carried out especially for the members of the chambers which, in fact, are a small proportion of the total number of persons engaged in commerce.

TOURISM

As explained before, the Costa Rican Tourism Institute (ICT) is the institution in charge of promoting and planning the country's touristic activity.

In reality, when judging the role of this institution it may be said that it has shown a positive balance insofar as promoting the country's tourism. In addition, it must be borne in mind that, because of its public nature, it has budget restrictions that impede or delay the implementation of touristic projects. This situation

seems to have been smoothed over because of the importance that has been given to the touristic activity during the past few years, and more specifically, the new government has presented very ambitious projects in this field.

It must be stated that, in spite of this willingness to promote tourism, some contradictory measures have been adopted, since the requirements for the entry of tourists into the country (granting of visas) have been made more stringent. This will evidently act as a deterrent to foreign tourism.

In the field of training, the National Training Institute is the institution in charge of giving direct support in the way of courses in hotelry and tourism.

As a matter of fact, in spite of the efforts made in this field, it is evident that the touristic activity has not been developed in accordance with the country's potential which, due to the country's geographical and political position, could find tourism a real "industry under development".

The private institutions existing in this activity are mainly chambers and associations, oriented more toward the interests of their members than toward the development of the country's tourism.

TRANSPORTATION

As explained before, public support for this activity is centered in the Ministry of Public Works and Transport (MOPT) which, beyond a doubt, has played an important role, principally in the building of internal infrastructure.

However, as has been mentioned in previous paragraphs, the deficiencies in transportation, particularly maritime, are one of the main limitations for the export of industrial and agricultural

products. Due to the importance of this situation, important efforts should be made in this field, which efforts [illegible] the participation of the State and of private enterprise in order to solve the situation which, no doubt, constitutes an important bottleneck for the development of foreign trade and in general the productive activities.

It must be stressed that as regards port facilities, during the past few years important efforts have been made, particularly with the construction of the ports of Caldera and Moín, which have made it possible to solve almost all of the coutry's port requirements.

FINANCE SERVICES

As stated in the development of the chapter, the National Banking System is the institution that dominates the rendering of finance services. In this regard, more than a support institution it is one of the components (the largest) of the Costa Rican finance system. However, due to its importance, it warranted an analysis, and also it justifies judging the role it has played in the rendering of finance services.

While it is true that the National Banking System represents about 70% of the Costa Rican finance system and serves as a mechanism for the development of the credit policy in support of different productive activities, in connection with the development of private participation in this activity it has played a role to a certain extent discouraging. On the one hand, for some years (1973-1978), through legislation, the activities of private finance companies were regulated, and after this legislation was amended, the

Banking System continues to play the role of competitor, mainly through the finance operations, which actually represent an obstacle for greater private participation in the finance activity. Furthermore, the great importance attained by the nationalized banking system introduced certain rigidity in the fixing of interest rates (either by law or to serve as a model for private finance companies) that has diminished the possibility of attracting internal resources. It must be added that an additional problem of this growth of nationalized banking is that it has resulted in administrative snags in granting credit, that very often constitute a real obstacle for productive activities that depend on credit support.

In order to be able to determine exactly whether or not the nationalized banking system is good for the country's development, it would be necessary to make a deep study. However, in connection with the development of the finance activity, everything tends to indicate that it has played a retarding and discouraging role.

As a general conclusion on the institutional framework supporting the sector, it may be stated that while it is true that some institutions have made important contributions, there has been a lack of willingness to support the private sector, so in many cases the public institution becomes a direct State participation in the productive activity.

As to the private institutions, they have assumed more a role of pressure groups than one of support and consolidation of the various activities, and in most cases, they are dominated by the "big businessmen" of the respective activities.

4.5 CONSTRUCTION SECTOR

RECENT EVOLUTION

The construction sector has experienced, in the recent past, important changes that, to a large extent, are connected with the variations in the economy as a whole.

The share of construction in the Gross National Product has lodged at around 6%, which represents a slight growth up to 1980, partly caused by the large number of government projects. However, for 1981 this share showed a sharp drop and the figure reached was even lower than the one for 1976 (Table 4-22).

The extent of contraction in the activity during the past few years is reflected in the real growth rate in production, which was -0.4 for 1980 and -28.6 for 1981. (Table 4-22).

In regard to employment, the activity has been absorbing around 7% of overall employment. In this respect it must be stated that employment grows as easily in times of boom, as it drops in recessions. In fact, reflecting the contraction in the activity, in comparing March 1982 with March, 1981, construction released around 10,000 workers (Table 4-23).

The level of real wages paid ranges very close to the average level for the economy (Table 2-30). In part, this fluctuation is explained by the inestability of work in this activity, which has not permitted the development of strong labor unions. The decrease in real wages during the past two years is quite similar to the drop in average general wages, while there is slighter deterioration than in other activities (Table 2-30).

Due to the very nature of the activity, credit is very

important, particularly in infrastructure projects which are related to long-term financing. In this respect, the availability of resources acquires considerable influence in the construction sector. In 1977 and 1978, the boom in coffee prices made it possible to finance a large part of the construction projects with the country's own funds. Subsequently, bank credit and borrowing abroad have assumed considerable importance, mainly for financing public works.

In this respect, the decrease in credit availability from the National Banking System for the activity, as well as the critical situation of the government with its foreign creditors, as explained later on, represent an important factor in the contraction of the construction activity in the country.

i) CREDIT AND INTEREST

The great importance of credit has led to the fact that the decrease in credit available has had recessive effects on this activity. The increasing absorption of credit by the government takes resources away from the private construction activity. Credit for housing granted by the National Banking System can be taken as an indicator of this situation. In fact, in real terms, credit for housing construction shows drops of 29.7% and 48.2% for 1980 and 1981, respectively (Table 4-25). In addition, the high rates of interest charged to the activity represent another important obstacle to growth in construction.

ii) FISCAL DEFICIT

A large part of the investment in this activity, mainly in infrastructure, comes from the Government. In this respect, the

critical fiscal situation and the scant availability of foreign resources constitute important limitations to the growth in public investment in this activity. At present, the resources are assigned to some projects financed with funds obtained from international development institutions. However, the implementation of new projects is practically at a standstill, due to the inability of the State to put up the required counterparts.

iii) INFLATION

The increase in price levels, accelerated by devaluation, which has occurred beginning in 1980, has had a marked effect on construction. In fact, a large part of the building materials are imported, so devaluation brings about a considerable increase in the cost of such materials. Suffice it to state that the general increase in wholesale prices was 411.6 for March of this year (as against 1978) while for building materials it was 461.4%[1/]

iv) CONTRACTION OF THE ECONOMY AND REDISTRIBUTION OF INCOME

The contraction of the economy as a whole necessarily brings about a drop in the physical facility requirements of the various activities, so the scant resources available are not used for the construction of new facilities but for the maintenance of existing ones.

At the same time, the fact that the effects of inflation are, to a large extent, felt by the wage-earning middle class (and since this class is the principal builder of houses) causes a retrenchment in house building in the country, which leaves an increasing number of families without the possibility of their own home.

The above considerations on the problems of the sector permit

1/ According to data from the Costa Rica Central Bank. Price Index Section.

pointing out that said problems could be attenuated indirectly to the extent that it is possible to improve the situation of primary activities and, in general, the economy. To the extent the growth in agricultural and industrial activities is stimulated and the situation of the wage-earning population is improved, it is to be expected that there will be a growth in the construction sector.

In the case of the public sector, the solution cannot be found in a better distribution of resources but in a more efficient utilization thereof, so that by taking resources from less productive public activities, a larger amount can be used for the building of infrastructure works.

INSTITUTIONAL FRAMEWORK

In the various branches of construction there have been developed a series of public or private institutions that contribute to the building activity. These may be summarized as follows:

INSTITUTION	ACTIVITY	NATURE
Ministry of Public Works and Transport	Infrastructure	Public
Chamber of Bridge and Highway Builders	Infrastructure	Private
Central American Economic Integration Bank	Infrastructure	Public
National Housing and Urbanization Institute	Housing	Public
Savings and loan mutuals	Housing	Private
Housing Credit Companies	Housing	Private

Other Finance Intermediaries Housing and installed capacity Public

The most important institutions are:

On the part of the State, the Ministry of Public Works and Transport, entrusted with everything that has to do with infrastructure (bridges, roads, etc.)

The National Housing and Urbanization Institute, which is the top authority in housing, obtains resources and carries out construction projects taking advantage of large-scale savings made possible by mass-production methods.

There are also some other finance intermediaries, like the National Insurance Institute, the Costa Rica Social Security, the State Banks, that devote part of their resources to house building.

The Central Amer. Economic Integration Bank gives strong support to infrastructure projects tending to facilitate the process of Central American integration.

Among the private institutions having the greatest importance, is the Chamber of Bridge and Highway Builders, which ensures performance under contracts by the government and also looks after the interests of its members.

The private finance companies devote a large part of their resources to financing construction and some of them have even specialized in this activity, as in the case of the Savings and Loan Mutuals.

Generally speaking, it may be stated that public institutional support for the sector is quite marked due to the social nature

of the activity. This support is mainly evident in house building and infrastructure works, and in the case of housing, this has made it possible to attenuate, in part, the shortage problem. The public institutional support assumes more of the nature of direct participation in the activity itself, than that of support to the private sector of the activity.

TABLE 4-22

GROSS NATIONAL PRODUCT FOR CONSTRUCTION

-millions of colones in real terms-

base: 1966

	1976	1977	1978	1979	1980	1981
Construction	464.7	482.8	510.8	609.4	607.1	433.4
Growth rate	-	3.9	5.8	19.3	-0.4	-28.6
Relative share in overall GNP Total	5.9	5.6	5.6	6.4	6.3	4.7

Source: Costa Rica Central Bank - National Accounts

TABLE 4-23

EMPLOYMENT AND WAGE EARNERS IN CONSTRUCTION

(1976-1982)

	1976	1977	1978	1979	1980	1981	1982
TOTAL WORKING POPULATION							
March	-	636753	675556	697556	722398	719662	746492
July	619477	658978	696010	718809	724708	726227	-
November	685505	716361	767059	760680	767120	808763	-
SECTOR WORKING POPULATION							
March	-	40794	46625	53722	54887	55356	45484
July	40540	42371	51537	55542	56189	48728	-
November	36016	41627	47139	55009	52445	44506	-
WAGE-EARNING POPULATION							
March	-	455942	492441	517310	529292	535137	554948
July	450045	475714	508962	523361	546116	545574	-
November	496851	526230	574181*	568900	582635	606708	-
SECTOR WAGE-EARNING POPULATION							
March	-	33888	39193	46171	44648	45506	36386
July	32894	36160	41721	46269	46484	39479	-
November	28471	33630	38778	46057	42780	36353	-
RELATIVE FIGURES							
PERCENTAGE OF WAGE-EARNERS WITH RESPECT TO THE TOTAL							
March	-	71.7	72.9	74.2	73.3	74.4	74.3
July	72.66	72.3	73.1	72.8	75.4	73.7	-
November	72.5	73.5	74.8	74.8	75.9	75.0	-

TABLE 4-23 (brought forward)

Employment and Wage-Earners in Construction

	1976	1977	1978	1979	1980	1981	1982
PERCENTAGE OF WAGE-EARNERS IN THE SECTOR							
March		83.1	84.1	85.9	81.3	82.2	80.0
July	81.1	85.3	80.9	83.3	82.7	81.0	-
November	79.0	80.8	82.3	83.7	81.6	-	-
SHARE OF SECTOR IN OVERALL EMPLOYMENT							
March	-	6.4	6.9	7.7	7.6	7.7	6.1
July	6.5	6.4	7.4	7.7	7.7	6.7	-
November	5.25	5.8	6.1	7.2	6.8	-	-
SHARE OF SECTOR IN OVERALL WAGE EARNERS							
March	-	7.4	7.9	8.9	8.4	8.5	6.6
July	7.3	7.6	8.2	8.8	8.5	7.2	-
November	5.7	6.4	6.7	8.1	7.3	6.0	-

* Preliminary corrected figures

SOURCE: Ministry of Labor and Social Security. National Survey of Homes, Employment and Unemployment.

TABLE 4-24

EMPLOYMENT AND WAGE EARNERS IN THE SECTOR

GROWTH RATE

	1977	1978*	1979	1980	1981	1982
WORKING POPULATION						
MARCH	-	6.1	3.3	3.6	-0.4	3.7
JULY	6.4	5.6	3.3	0.8	0.2	-
NOVEMBER	4.5	7.1	-0.8	0.8	5.4	-
WORKING POPULATION - SECTOR						
MARCH	-	14.3	15.2	2.2	0.8	-17.8
JULY	4.5	21.6	7.8	1.2	-13.3	-
NOVEMBER	15.6	13.2	16.7	-4.7	-15.1	-
WAGE-EARNING POPULATION						
MARCH	-	8.0	5.0	2.3	1.1	3.7
JULY	5.9	6.8	2.8	4.3	-0.1	-
NOVEMBER	5.9	9.1	0.0	2.4	4.1	-
WAGE-EARNING POPULATION - SECTOR						
MARCH	-	15.6	17.8	-3.3	1.9	-20.0
JULY	9.9	15.4	10.9	0.5	-15.1	-
NOVEMBER	18,1	15.3	18,7	-7.1	-15.0	-

* Preliminary Corrected Figures

SOURCE: Ministry of Labor and Social Security. National Survey of Homes, Employment and Unemployment.

TABLE 4-25

NATIONAL BANKING SYSTEM

NEW EFFECTIVE LOANS IN HOUSING

-Accumulated January 1st - December 31st-

-Amounts in millions of colones in real terms-

Base: 1976 = 100*

	1976	1977	1978	1979	1980	1981
Housing	221.3 (-)	272.9 (14.2)	362.6 (32.9)	378.3 (4.3)	270.8 (-28.4)	134.8 (-50.2)
Construction	186.5 (-)	221.2 (18.6)	292.9 (32.4)	314.9 (7.5)	221.3 (-29.7)	114.7 (-48.2)
Purchase	34.8 (-)	51.7 (48.6)	69.7 (34.8)	63.4 (-9.0)	49.5 (-21.9)	20.1 (-59.4)
Share in overall credit Total	4.2	5.0	6.0	7.0	6.0	4.5

Deflated in accordance with wholesale price index for building material.

Note: Figures in parentheses represented growth rates.

Source: Costa Rica Central Bank. Credit and Monetary Accounts.

5.1 PRODUCTION AND EXPORTATION LEGISLATION BY ECONOMIC SECTORS:

This chapter deals with Costa Rican legislation which regulates the incentive pattern, by economic sectors, of the production and exportation activities. It will also explore the marketing and comercialization stages of production and exports, attempting to identify legal bottlenecks and disincentives which characterize the Costa Rican economy, from a legal standpoint. Because of time limitations, it has been impossible to present a comprehensive incentive scheme. Nevertheless, we have selected and analized the statutes which have a bigger incidence over the subject matter.

A.- THE PRIMARY SECTOR:

1.- Production Incentives:

Even though the Primary Sector has been traditionally considered the main economic activity of Costa Rica due to our position in the International Division of Labor as a producer of tropical agricultural commodities and the comparative advantages which this sector offers, there exists a production incentive structure that can be classified in the following categories:

a) Subsidized banking credit:

Pursuant to specific statutes which regulate the production and comercialization stages of certain commodities, subsidized banking credit has been one of the uniform incentives granted to such products in the context of a banking system which is state owned and controlled.

This incentive has been created as a general obligation of our Commercial and Central Banks, contained in each specific statute. The degree of mandatory compliance with such obligation varies with each commodity. In the case of sugar cane and coffee,

subsidized banking credit must be available to finance private producers for each year's crop. Both statutes specify that such credits must be guaranteed by chattel mortgage over the potential crop. In the porcine raising field, credit preferential treatment must be granted to Costa Rican producers. The foregoing commodities are favored by a statutory general statement which establishes the obligation of granting credits. Nevertheless, the level and volume of credit for these commodities is allocated by the Executive Power, through the Central Bank, in each year's National Credit Plan.

In the case of reforestry and banana, the degree of statutory regulation for banking credit is higher. In reforestry activities, credit must be available in a quantity not lower than a 2 % of total credit for the agriculture and cattle sector, interest rates cannot be higher than an 8 % yearly and loan amortization must be paid in a time period not lower than 15 years with a 5 years grace period. In the case of banana, interest rates cannot be higher than those charged for other agricultural and cattle activities for producers planting not more than 250 hectares. Statutory provisions for these commodities cannot be modified by the Executive Power, introducing an element of built-in inflexibility in the National Credit Plan elaborated by the Central Bank.

b) <u>Import duties exemption on inputs, capital and intermediate goods</u>:

A tax incentive in the form of import duties exemption for the importation of inputs, capital and intermediate goods which are necessary for the obtention of final products, is also provided

for in the specific statutes which regulate certain commodities. This exemption is granted not only for production of agricultural crops but it is also extended for processing of certain primary sector activities which are vertically integrated, such as banana, poultry , porciculture, fishing and mining. For example, in the case of fishing, the exemptions are extended to boats, equipment, transportation, industrialization and scientific materials.

Import duties exemptions do not only apply to certain commodities. The tax benefit can also be granted according to the legal form of association adopted by the producers. Statutory provisions grant import duties exemptions for inputs imported by cooperatives, cantonal agricultural centers and by the National Production Council (CNP).

c) Direct Tax exemptions:

Tax incentives, in the form of direct tax exemptions are also available in determinate statutory norms. Producers which qualify for the benefits of the Forestry Regime are entitled to a tax credit against their income tax liability of ₡16.000 per cultivated hectare. Persons dedicated to reforestry activities are exempted from their total real estate tax, uncultivated land tax and their income tax liabilities only for such activities. In the banana production, the higher marginal income tax rate for foreign companies which cultivate more than 2.000 hectares is of 45 %, as opposed to a 50 % for other producers and taxpayers.

Cooperatives are totally exempted from income tax liability and from real estate land taxes for a 10 year period.

Their associates are entitled to exclude from their personal taxable income 50 % of the surpluses distributed to them by cooperatives.

d) Minimum purchase prices guaranteed to producers of certain agricultural products by the National Production Council:

A direct legal subsidy to producers of basic food products is provided for in the Law of the National Production Council. In order to assure the production level and volume of so called "basic food products", which form part of the regular average popular diet, The National Production Council is bound to establish, announce and comply with minimum purchase prices guaranteed to producers of such commodities, with enough time in advance of each crop. The National Production Council is obliged to respect the minimum purchase prices announced in advance and private producers may sell their production of said commodities to the CNP at the minimum price established.

The list of commodities with minimum purchase prices guaranteed to producers is elaborated and decided by the National Production Council, an entity of the Executive Power, and it can be modified according to the levels of production of such products. Even though the list of goods benefited by this system is constantly changing, the most likely to be included are basic grains, such as rice, beans, corn, sorghum, etc.

This subsidy mechanism is also extended to consumers due to the National Production Council's obligation established in the same Law, to sell those products to the final consumer at a "reasonable price", which means that the public institution bears the burden of price variations, equivalent to the difference between the

minimum purchase price paid to producers and the final consumer price charged to the public. If we add the fact that basic grains have price controls in the domestic market, we may conclude that the only way of promoting production of these commodities under this system, is assuring producers a higher minimum purchase price than the price charged to consumers. The National Production Council pays the difference in the form of a subsidy.

e) Credit for production affected by natural disasters:

A special statute establishes the obligation of domestic commercial banks to afford credit and renegociate debts with producers that have been affected by natural events, such as floods, fires, etc.

f) State insurance for crops:

The National Insurance Institute, a decentralized public institution which manages the state insurance monopoly, regulates completely the crop insurance. Pursuant to statutory delegation, the National Insurance Institute may determine the premiums to be paid by producers to insure their crop, depending on the commodity, the geographical location, the risks involved, etc. Although producers must pay the premiums of the crop insurance, there is a significant likelihood that the government insurance contains a subsidy, since premium do not reflect the actual risks involved and costs of the program.

g) Subsidy for fertilizers:

Law N° 6707 of December 22, 1981, which amended Law N°6696, known as National Currency Devaluation Statute, created an export tax over the nontraditional exports to Central America. As a second priority for the use of funds arising from said export tax, it

established a subsidy in favor of FERTICA, a state owned fertilizer factory, in order to maintain the same prices charged by FERTICA, since September 30, 1981, to small and medium producers.

This subsidy amounts to a big sum taking into account that production of fertilizers has a high imported content and the cost of imports has increased considerably since the date indicated for price control. The export tax created to finance this subsidy, up to this moment, has not even covered the first priority established by the National Currency Devaluation Law. It also promotes smuggling of fertilizers to neighbor countries.

2.- Production constraints and disincentives:

From a legal standpoint, major production desincentives in the primary sector, mainly agriculture and cattle raising, are determined by the combined effect of domestic price controls, distribution of output between domestic consumption and exportation, and presence of National Producers Council's minimum purchase prices guaranteed to producers. Other important obstacles for production involve import taxes of inputs and the recent monetary problems derived from devaluation of our currency, items which will be dealt with in other sections of this work.

a) Official price control:

The Law of Consumer Protection entitles the Ministry of Economy to impose price controls on products which are considered basic for the population. Official price control can be effected by direct imposition of maximum prices to be charged to consumers, in the essential goods; or by imposing maximum porcentages of profit

for persons intervening in the commercial stages of the product, generally in the case of nonessential goods. Decision on which prices of goods must be regulated and controlled, rests in the Ministry of Economy, through the operation of Boards of Price Adjustments, and are constantly being reviewed. Currently, price controls cover several agricultural goods, specially those with high domestic consumption.

The effects of price controls over the primary sector products may be classified, by its incidence, in the following categories.

1.-Products with scarce domestic demand and small exportation level (nontraditional products).- This products are not affected by price controls and they have enough incentives to be produced, due to the fact that the major part of production is destinated to exportation.

2.- Products of scarce domestic consumption and a high volume of exports (banana, shrimps, etc.).- This products are also incentivated to be produced, since they do not have price controls due to the scarce domestic demand.

3.- Products with high domestic demand and scarce export volume - They may be classified depending on the existence of minimum purchase prices guaranteed to producers or not:

a) Products with minimum purchase prices guaranteed to producers (rice, beans, corn, sorghum) they have strict price controls. Nevertheless, they are benefited by the minimum purchase prices paid by the CNP to the producer and depending on the

adequacy of such price is that there will be an incentive to produce them or not;

b) Those [illegible] do not have minimum purchase price guaranteed by the CNP (milk, eggs, etc.) this products are not incentivated to be produced due to the fact that they cannot be exported, they do not have subsidies and they are strictly controlled in their prices.

4.- Products with presumed high domestic consumption and a high exportation level (coffee, sugar cane, beef)- the production incentive will be determined by the total annual production and the possibilities for export. If there is a high exportable [illegible] plus, after the domestic quota, the exportation will subsidize the sale in the domestic market. This products have a strict price control and a mandatory supply for the domestic market. The high domestic consumption seems to be a fiction which reflects the high degree of smuggling to other neighbor countries where prices are [illegible]. This factor is one of the probable causes which ficticiously enhances the level of domestic consumption.

b) Taxes on inputs of these products are a main disincentive for production, specially if it is accompanied by price control in the sales performed in the domestic market. Taxes on inputs will be dealt with in another chapter.

c) Exchange problems which affects the importation of capital and intermediate goods -The devaluation suffered by the national currency of aproximately a 600 % has made that, besides the taxes on the importation of inputs, it is practically impossible

to substitute the capital and intermediate goods for the production of the primary sector. - The fact has been caused by the increase in price of said goods, due to the devaluation, which makes difficult the acquisition of foreign currency. This problem will be treated in a bigger extent in another chapter.

3.- Regulations upon the internal and external commercialization processes of agricultural products:

In order to regulate the main agricultural products of exportation and internal consumption, Costa Rican legislation has created several institutions of a public and private combined nature (with participation of government and private entrepreneurs) in charge of regulating all the transactions in the commercialization process of said products. Such entities do not have a uniform pattern since the degree of intervention in the transactions which they regulate, varies according to each product. The degree of independence of such entities also varies. According to the degree of regulation of commercial transactions with each product, the institutions may be classified in the following form:

a) Entities with a high degree of regulation over the transactions:

The Sugar Cane Agricultural and Industrial League is the entity which regulates the transactions with sugar cane and may be considered the one with the highest power in the regulation of private transactions with agricultural products. This entity regulates completely the relations among producers, sugar cane refineries and the whole exportation activity. The institution purchases, exports,

distributes, sells, exports and, even, have powers to port sugar cane when the production level cannot supply the domestic market. It also establishes the internal consumption and the exportation quotas and the quotas which every refinery must process. All the exportation agreements must be registered and approved by the League before its exportation. It regulates the quality, may limit number of refineries and regulates profit obtained by the exporter in each exportation. In summary, this institution regulates all the production and commercialization aspects of the sugar cane and, in the practice, it is the only one which exports all the excedents of sugar cane to foreign countries paying the producers and the refineries in advance over said exportations or over the domestic sale price. The intervention of the Sugar Cane League has represented a true ordering of the sugar cane market in Costa Rica.

b) Entities with a high degree of regulation over the transactions, but with a certain freedom margin for private transactions (Coffee Office and The Assisting Comission for the Beef Market, a department of the CNP):

The Coffee Office regulates all the relations between producers, coffee processors and exporters; sale and purchase prices of coffee; establishes the domestic consumption and export quotas; establishes the net profit of the exporter, tied up to a percentage of every transaction. Sale and purchase agreements should be recorded in the Office. It also regulates the quality and, in general, all the commercialization process, trying to avoid the intervention of unnecessary intermediaries. The Coffee Office is in

charge of liquidating the foreign exchange obtained from the exportation, through an allocation mechanism among all the persons that intervene in the productive stages. It has also the powers of establishing a minimum purchase price guaranteed to the coffee producers. The only difference with the Sugar Cane League consists in that the exportation agreements can be negociated privately and the Office operates as a fiscalizing entity and not as a direct exporter.

The Assisting Comission for the Beef Market, an entity which depends of the National Production Council, has the powers of recommending to the CNP the internal consumption and exportation quotas and the percentage of female cattle which can be carved and exported. It has also the powers of prohibiting exportation, to grant exportation permits only to the exporter that can demonstrate that he has comply with the domestic consumption quota. Sale and purchase contracts must be registered before the CNP and there is total freedom to export, under the control of the CNP. Regarding the beef market, there is a private agreement or oligopoly among the four local processors in order to distribute, among them, the quotas for the exportation market, The common characteristics between both institutions is that although they regulate the majority of the transactions with their product, they leave a certain margin of liberty to negociate the exportation contracts with the purchasers in the external markets.

c) <u>Entities in charge of the production defense of agricultural articles</u>:

Board of Tobacco Defense.

Although the Board of Tobacco Defense has only

recommendative powers before the National Council of Production, it is the institution which recommends the purchase prices for the crops in advance, which cannot be modified. Such prices are established at the level of the producers and the processors. It also recommends the volume of the yearly production quota and allocates the quota among the producers. It also recommends the imports of tobacco, when needed, with the purpose of selling it at the same price of the domestic production. The difference with the other institutions consists in that tobacco is not an export product. On the contrary, its main objective is to supply the domestic market.

This institution has a different nature than the foregoing.

d) Entities with little power of regulation over the transactions:

Other entities, such as the National Banana Association, the Board of Porcine Promotion and the [illegible] Board have, as its only objective, to promote production of the articles which they protect. More than regulation institutions of the commercialization processes, they are financial institutions which only have recommendative powers and their main operations are to obtain convenient financing for producers.

B.- INDUSTRIAL SECTOR:

1.-Production incentives:

In Costa Rica exists a huge variety of incentives for the industrial sector, as a consequence of the industrialization programme iniciated in the decade of the 60's with the creation of the Central American Common Market. In addition to the tariff and tax incentives

granted by the Treaties of Central American Economic Integration, there are several national statutes that extend such benefits, converting them almost in unlimited. We will summarize these incentives, classifying them according to the statutes which create them:

a) The Law of Industrial Protection and Development (N° 2426 of September 3, 1959):

This statute was enacted before the Costa Rican participation in the Treaties of Central American Economic Integration. Although this statute, in its majority, creates tax incentives which are also granted to the same industries enjoying the benefits of the Central American Convention on Tax Incentives for the Industrial Development, and it even grants tax incentives which are similar to those of the Convention, its importance resides in that it has not been derogated, leaving to the sole will of the industrial entrepreneurs to choose between the benefits of this statute or the benefits granted by the Central American Convention. It is also important to indicate that the Law of Industrial Protection and Development applies to areas which are not covered by the Central American Convention, such as industrial processes of mining, fishing, service industries and activities, agriculture, artisan industries and popular housing construction.

The main tax incentives granted by the Law are the following: NEW INDUSTRIES: 99 % exemption of custom duties over construction materials which are necessary to construct de factory building; 99 % exemption over custom duties for the importation of capital and intermediate goods which are required for the manufactur-

ing of the products; 99 % exemption on custom duties for oil and lubricants, except gasoline, which are necessary for the energy of the industrial plant; 99 % exemption of custom duties over the importation of raw material and other inputs; 100 % exemption of real estate taxes during five years; 100 % exemption of taxes over the invested capital and profits obtained; total exemption of exportation taxes over articles produced by the industrial plant; and income tax exemption over the profits reinvested by the enterprises in improvements to the workers houses. ESTABLISHED INDUSTIRES: the majority of the foregoing exemptions are granted, but only in a 90 % .

b) Central American Convention of Tax Incentives for Industrial Development:

When Costa Rica joined the Treaties of Central American Economic Integration, it adopted as one of its main instruments, the Central American Convention of Tax Incentives for Industrial Development, whose principal objective was to uniform the tax incentive pattern which existed for the industrial sector in the different Central American countries. Although this was not accomplished, as it was explained in the latter section, due to the fact that the different national tax incentives statutes were kept in force, the Central American Convention came to broaden the group of tax incentives available for the industrial sector, in accordance with the general plan of Central American industrialization.

The classifications of industries, pursuant to available tax incentives, is based in two criteria which coexist jointly:

1.- Producers of capital (Group A), intermediate (Group B) and consumer (Group C) goods; and 2.- Another classification based on the division between new and existing industries. The basic idea behind both criteria was to grant more and better nominal tax incentives to capital goods industries than to intermediate goods' industries, and more and better nominal tax incentives to producers of intermediate goods than to industries manufacturing consumer goods. In the same way, more and better tax incentives would be provided for new industires than for existing industries.

The main tax incentives granted to enterprises, in a major or minor degree depending on their classification, are the following: 1.- EXEMPTIONS: Of import taxes over machinery and equipment, raw materials, semimanufactured products and containers; and exemptions on the importation of fuel used in the industrial process, except gasoline. It were also granted exemptions on income tax and on profits, payable by enterprises or by its shareholders, arising from the protected activities. 2.- REINVESTED PROFITS: A deduction for reinvested profits made in machinery and equipment which enhanced the productive capacity of the industry from income and profits taxes was also contemplated.

c) <u>The Uniform Customs Central American Code</u>:

Added to the multiple and excessive tax incentive pattern fostered by the Central American Convention on Tax Incentives, the Treaties of Central American Economic Integration created a uniform tariff system as part of the conception of an imperfect custom union. The tariffs contained in the Central American Convention for the

Equalization of Import Taxes uniformed the import taxes to be paid in the whole area for industrial manufactures which are imported and it has a high degree of protection for Central American infant industries.

The majority of technical studies made of the Central American Tariff Scheme has demonstrated that the levels of protection for industrial manufactures produced locally in Central America are very high in the sector of consumer goods and, in many cases, very low for the domestic production of capital and intermediate goods. It has also been concluded that the Central American tariffs are the main incentive for the establishment of industries in the area, in a higher degree than the tax incentives. This fact has been a main cause for the consequence that the Central American industrial structure and import substitution has been carried predominantly in the consumer goods stage, without enough national value added. It has also promoted the establishment of inefficient industries with high production costs due to the high degrees of protection of the tariffs.

d) <u>Incentives for artisans and small industries</u>:

Executive Decree Number 6435-MEIC-HP created an exemption of a 100 % on payment of custom duties and economic stabilization tax for the importation of machinery, tools, equipment and raw materials necessary for small industries and artisans. The beneficiaries cannot ask for this exemption for more than six times a year and they are limited to a small sum for the taxes exempted. It is also permited to them the sale, free of income tax, of the

artisan and industrial goods when they have been depreciated according to the Income Tax Law. They may exclude from taxable income the salvage value of the goods and the sale is exempted from sales taxes.

e) Exemption of import taxes on raw materials, capital and intermediate goods for industries in the event of a suspension of free trade among Central American countries:

Law Number 5080 of October 4, 1972 created an exemption of import taxes on inputs, capital and intermediate goods required by industries to manufacture their final products, when a suspension of the free trade regime occurs among Central American countries. The exemption percentage must be of such magnitude that the cost of imported goods equals the cost of inputs as if they came from the Central American countries.

The benefits granted by this Law have been applied in cases of political problems in the area. Sometimes, this benefit has been applied without the concurrence of free trade suspension and with the exclusive purpose of importing cheaper raw materials.

f) Law of Exportation Processing Zones and Industrial Parks (N° 7695 of December 10, 1981 and its Regulations):

Recently, the "Law of Exportation Processing Zones and Industrial Parks" was enacted to establish special zones in Mohín, Limón, El Roble, Puntarenas, and in favor of other areas which may be under the fiscal control of the State, with the purpose of promoting processing industries for exportation or reexportation to third country markets, which may process, ensemble or produce goods and that only, by exception, may be introduced to the country; commercial export companies non producers, which only manipulate,

repack or distribute non traditional merchandise and products for exportation to third markets; and industries and companies connected with the exportation processing zones which provide services to such zones.

The Industrial Parks, added to the possibility of enjoying of the benefits granted by the Law of Industrial Protection and Development, The Central American Convention on Tax Incentives and the Law of Export Promotion, may enjoy, through this statute, of additional incentives such as partial exemption on municipal taxes during 5 years, preferential loans from state banks, assistance in marketing, training, personnel selection, search for national raw materials, housing and school construction in strict coordination with local institutions.

The Exportation Processing Zones are entitled to enjoy the following incentives: total exemption of import taxes on inputs, capital and intermediate goods; total exemption of export taxes for its products, production machinery and equipment; 10 year period exemption of capital and net assets taxes; total exemption of withholding taxes over payments to non-domiciled persons; total exemption of profit and dividend taxes during 6 years and 50 % exemption during the next 4 years, or as an alternative to this last choice, they may receive Certificates of Tax Installments for a time period of 10 years but only linked to the value added by direct national labor in the products exported. In addition, they will enjoy of free handling of foreign currency generated by them and for their operation. Foreign currency required to pay local inputs and labor

must be changed exclusively in the National Banking System, at the free market exchange rate. They are also subject to Costa Rican Labor and Social legislation.

g) Service Regime for General Warehouse Deposits for Reexportation (Decree N° 13489-H of April 6, 1982):

This Decree complements the Law of Exportation Processing Zones, in the intent to convert Costa Rica into a foreign goods' merchandise center to the nearest area (Central America, Caribbean and the north of South America), similar to the Free Zone of Colón, Panamá. Its purpose is to take advantage of the country's ports, warehouses and storage facilities and the use of national raw materials and labor.

The advantage granted by this Decree consists in permiting storage, tax free for 18 months, in Costa Rican general warehouse deposits. Companies must pay export taxes but only over the national value added. Transactions are exempted from income tax for owners which are not domiciled in the country, provided these transactions are not performed in national territory.

2.- Disincentives for industrial production

As we may deduct from the preceding section, the industrial sector has excessive levels of protection and incentives for production. In spite of the industrial sector's incentive structure, it has been impossible to achieve an export drive of said manufactures to third markets outside the Central American area. This fact demonstrates an inefficient, high cost industrial structure. The main disincentive for industrial production, in this moment, is the raise in price of inputs, capital and intermediate goods' imports

caused by the devaluation of national currency. Import such goods are not significant due to the fact that most industries, almost all, are enjoying total or partial exemptions on import duties.

C.- SERVICE SECTOR:

1.- Production incentives:

The Costa Rican terciary sector, with the exception of the tourism industry, has scarce incentives for the production of services. On the contrary, the commercial and financial sectors are strictly regulated by the State. Some of the incentives statutes included in the industrial sector are applicable to the Service Sector, specially the ones related to the Exportation Processing Zones, General Warehouse Deposits and the Law of Industrial Protection and Development.

The only statute which contains tax incentives for the terciary sector is the Law of the Tourism Industry, N° 2706 of December 2, 1960, regulated by Decrees N° 4442-MEIC of January 6, 1975; 12348-MEIC-H of February 25, 1981, N° 6065-H of June 15, 1976 and N° 22 of September 3, 1963, all of which benefit the touristic industry, mainly hotel activity and promotion and service activity for national and international tourism. Tax incentives granted to these activities include total exemption of import taxes over construction goods and materials required for hotel and touristic services.

2.- Regulations and limitations to the production of services:

More than disincentives, the Service Sector is strongly regulated by the Costa Rican legislation, specially the Commercial and Financial Sectors. In this section, we will review the regulations which exist, in general terms, in this economic sector.

a) Tourism:

Costa Rica does not have a general legislation in the area of tourism, although there has been an interest in enacting a General Tourism Law. Currently, tourism activities are fiscalize and promoted by the Costa Rican Institute of Tourism, a decentralized institution of the State. Such institution is in charge of investment activities, such as hotels construction, leasing and management coordination of Costa Rican publicity in foreign countries, transportation activities for the promotion of tourism, good care of places with historical interest, declaring and maintaining National Parks and the protection of tourists in our country. In addition, it must promote and fiscalize the private activity in relation with tourism.

The Costa Rican Institute of Tourism, through the Regulation Law of Travel Agencies and its Regulations must also exercise control and fiscalization of travel agency's activities. Such control is exercised through the granting of licenses. Without them, travel agencies cannot operate freely in the market. Control is also extended to travel agency's publicity, prices, terms and conditions of touristic projects which travel agencies must record in the Institute in advance to its execution. The ICT must also authorize prices charged by travel agencies in domestic operations.

Private aviation activities in Costa Rican territory

are also regulated by the Law of Civil Aviation. Said Law requires a certificate of exploitation for the performance of public air services granted by the Technical Council of Civil Aviation, which consists of a concession agreement granted by the State, nontransferable and nonattachable. International air transportation services must count with the certificates of exploitation and to be granted to foreign companies, the government requires the reciprocity for Costa Rican air lines from the country in which the foreign company is incorporated. Transportation tariff of persons and merchandises must be reviewed and approved by the Technical Council of Civil Aviation and no company which operates in Costa Rica may charge prices that differ from the official tariff. This Law also regulates all the aspects in relation with air transportation companies, air transportation agreements, airplanes and the company's liabilities arising from damages occasioned to passengers, national territory and transported merchandises. Regulation of air tariff have been generally used as a way of protection to the national air line LACSA, which is predominantly owned by the State. Currently, the Costa Rican government is discussing the possibility of adopting a new policy of"open skies" in the national territory, with the purpose of liberating the international air transportation market from restrictions on foreign companies which fly to Costa Rica and the tariff that they charge.

Indirectly, the tourism sector is also affected by the Law of the Land-Maritime Zone, specially in regard to hotel projects and other investments in the beaches and the river margins.

Such Law declared as public zone the two hundred meters of land starting from the regular tide and the zones bordering the rivers. The first fifty meters are considered public zone and no person can be excluded from enjoying them, and the next 150 meters are considered a restrictive zone and may only be leased by the municipality of the corresponding canton to private persons. Foreign persons cannot lease the 150 meters of restrictive zone and corporations may only qualify if they have a 60 % of Costa Rican capital. This Law is fiscalized by the Costa Rican Institute of Tourism, in the case of beaches which are considered touristic, and by Costa Rican Institute of Colonization, if they are considered rural.

b) Financial Sector:

Banking State Monopoly: Costa Rica has, since 1950 a state monopoly over the banking activity. Only State owned banks are entitled to receive deposits in current accounts, according to the Costa Rican Constitution.

Regulations on nonbanking financial corporations: The Law of Regulation of Investment and Special Credit Nonbanking Financial Corporations regulates all the activity performed by financial intermediaries in national and foreign markets which destinate the biggest part of their resources to provide funds, working capital and general financing for activities performed by other corporations or natural persons; companies dedicated to the sale of negociable instruments and other financial and credit documents issued.

Nonbanking financial corporations are strictly fiscalized by the General Auditor of Banks, a department of the Central

Bank. To be legally created, among other requirements their social capital must be not lower than ₡1.000.000 and they must contain the word "financiera" in their name.

The active operations which this financial institutions perform are regulated in the following aspects: They cannot put credit in foreign countries which arises from the financing and investment of resources obtained in the country from negociation of shares, debentures, negotiable instruments of any class. They cannot grant credit to a same natural person or corporation which excedes from a 20 % of its patrimony, nor grant credit to its shareholders or representatives for more than a 25 % of its capital and reserves. They cannot open and operate public deposits in current account, savings and term deposits and they must make public their financial costs arising from the services performed. The Central Bank may establish their active interest rate and the maximum comissions they may charge; the Central Bank imposes them their legal reserves, which must be between 0 and a 10 % of their resources. The Central Bank also intervenes in the composition of their portfolios, establishing maximum percentages in this activity and time periods for the resources received.

Pasive operations are also regulated by the Central Bank. Debt-equity ratio (total liabilities and suscribed and paid capital) cannot excede from 7 to 1. They must also destinate not less than 5 % of their liquid profits to the formation of a special reserve until they achieve a minimum of 20 % of their social capital.

There are also strong sanctions, imposed in the Law for financial corporations which do not comply with the preceding regulations.

Private Banking Creation and Operation: The Organic Law of the National Banking System regulates the creation of private banks in Costa Rica, with the limitations implied by the banking state monopoly. Private banks, as we mentioned before, cannot receive deposits in current account to invest them in credit or commercial operations with other persons.

The Law and the Regulations for the Authorization and Opening of Private Banks establish certain requirements for the creation of a private bank. The application to create it must be filed in the General Auditor of Banks' Office. They must be created by no less than 10 shareholders and the shares must be nominative. Social capital must be paid in full and cannot be less than ₡5.000.000. Semi-annual profits of private banks must be distributed in the following way: 10 % for the formation and increase of their legal reserve; 10 % for the creation of a guarantee and pension fund for its employees; and the rest, for dividend payments to its shareholders and for the purposes specified by the Board of Directors with the approval of the General Assembly of Shareholders.

It must be noted that periodically, emerges the discussion, at a legislative and public opinion level, of the convinience or inconvenience of flexibilizing the postulates of the banking state monopoly, with the purpose of giving private banking activity a broader scope. It is also being discussed in the Congress a statute proyect for the establishment of an International Offshore Banking

System similar to the legislation which exists in Panamá. Said proyect has as its main purpose the granting of tax and other incentives to international banks that may come to Costa Rica to perform international transactions with resources from developed countries.

<u>The National Stock Exchange and the Costa Rican Financial Market</u>: The Costa Rican Financial Market is regulated by the Commerce Code, specially in the formation of stock exchanges and transactions with negotiable instrument, debentures and other financial documents.

In accordance with the regulations of the Commerce Code "The National Stock Exchange" started to operate in Costa Rica in 1976. It is a corporation with strong control and participation of the State. This corporation has come to order and create more controls in the country's financial market. Negotiable documents which have been negotiated frequently in the Stock Exchange are bonds issued by the government, bonds issued by private companies, shares, mortgage credits, promissory notes, exchange bills and other classes of instruments of private corporations, certificates of tax installments and term deposits issued by the National Banking System. It also had a very active participation with foreign currency transactions.

The National Stock Exchange has helped the Costa Rican Financial market by permitting more open transactions with negotiable instruments. Nevertheless, it has not achieved a better success in the area of business transactions, due to the facts that

the national financial market is not well developed, the majority of the private corporations are closed corporations of familiar background and to the extended practice of tax evasion which forces open private corporations to misrepresent their Financial Statements and making the investment in their shares not attractive for investors.

c) The Commercial Sector:

All the activities of the commercial sector are regulated by the norms of the Costa Rican Commerce Code. The Commerce Code regulates the activities of persons dedicated to commerce, corporations, commercial acts and agreements, negotiable instruments and bankruptcy commercial procedures.

Restrictions for performing commercial activities: The most important restrictions for the exercise of commerce in Costa Rica are the following:

1) General Restrictions:

Besides the state monopoly over the banking activities there is also a state monopoly over insurance , established by Law N° 12 of October 30, 1924.

Other important restrictions to the performance of commercial activities are the contractual clauses prohibited by article 1023 of the Civil Code, which are also applicable to commercial acts and contracts. The well known "restrictive commercial practices" are generally incorporated to accession contracts, or international agreements of technology transfers. The main objective of these prohibited clauses is to restrict the legal protection of purchasers of tangible and intangible goods.

Prohibited clauses are the following:

a) Clauses in which the seller reserves himself the right of modifying an agreement on his own will or determine by himself if the good sold is the same offered;

b) When the seller establishes an excessive time period to decide whether he accepts or not the purchase offer made by the consumer;

c) Clause in which the goods sold may not correspond to their description, normal use or specified use by the seller and accepted by the purchaser;

d) The clause which submits the execution and interpretation of a contract to a foreign law in order to avoid the application of domestic laws which protect the consumer;

e) The ones which exclude or restrict the right of the buyer to claim in regular courts.

f) The clause which contains waiver of the buyer to the right of claiming a breach of contract, in cases of force majeure, or eventual case;

g) The clause in which the seller reserves the right ofestablishing the date of delivery of the goods.

h) The clauses in which one of the parties of the agreement imposes the other party the burden of evidence, when normally that corresponds to the other party;

i) Clauses which prohibit the buyer to claim a breach of contract when the seller has the obligation of reparing the goods and has not done it in a reasonable term;

j) Clauses which oblige the buyer to repair or obtain spare parts and accesories exclusively from the seller, once the time guarantee has expired;

k) Clauses which imposes the buyer a time period excessively short to formulate claims to the seller;

l) Clauses which authorize the seller, in a sale to be paid in installments, to ask the buyer for excessive guarantees to the court's best judgment;

m) Clauses which exclude or limit the liability of the seller;

n) Clauses which entitle the seller to withdraw from contractual obligations without justified cause or without due consideration.

It should be noted that the prohibition of the foregoing contractual clauses was included in the General Part of Contracts of our Civil Code, which still conserves the Napoleonic influence based in "contractual liberty" and "independence of will". This fact has ocassioned a big confusion, since it is not only applicable to certain cases, but also extends to all types of contracts. Other Latin American countries have prohibited this type of contractual clauses as a part of their legislation regulating foreign investments and technology transfer processes.

2) <u>Restrictions to commercial activities performed by foreigners</u>:

There are also restrictions for the commercial activity of foreign natural persons and foreign owned corporations.

Among them, the most important ones are:

a) Foreigners which have not resided permanently in Costa Rica for a period not less than 10 years, cannot practice commerce in Costa Rica. Foreign companies must act through distributors, concessionaries, representatives and foreign companies's, representatives which are Costa Rican or foreigners with permanent residence in Costa Rica for 10 years at least. Nonetheless, it shoud be noted that agencies and subsidiaries of foreign companies whose products are manufactured in the country, may directly and freely distribute and represent their own lines and those of Central American origin.

b) The Law of Protection to Representatives of Foreign Companies: Law N° 4684, amended by Law N° 6209 of March 9, 1978 and its Regulations, Executive Decree N° 8599-MEIC of May 5, 1978 created a protection for representatives, distributors and manufacturers of foreign companies in the event that the foreign company terminates or rescinds an agreement for causes not depending on the will of the representative, distributor or manufacturer; or when the term of the contract expires and is not renewed by causes not depending on the will of the representatives. The foreign company must pay the representative, distributor or manufacturer a very high indemnization and is also bound to purchase the product stocks in power of the representative at a price which includes the historical cost of the product plus a reasonable percentage for financial costs. In the event of a court lawsuit, the foreign company must present a bond, determined by the judge, over the total of the indemnization

claimed. If the company does not render the bond, the Finance Ministry may suspend, upon the representative's application, any class of importation from said foreign company.

c) Decree N° 13519-S of April 19, 1981 requires that foreign commercial agents dedicated to commercial activities and who attempt to practice commercial acts in Costa Rica, must obtain special immigration visas to the country, as commercial agents and their activities must be conducted through a licensed representative of foreign companies.

d) Article 866 of the Commerce Code requires that agencies and subsidiaries in Costa Rica of foreign companies may be declared in bankruptcy, independently from their mother companies, having them for these purposes as a separate legal entity. In that event national and foreign creditors, domiciled in the country, have preference in the payment of their credits.

* * * * *

As opposed to the other productive sectors, commerce does not have special tax incentives in our country. On the contrary, they must keep accurate accounting within the requirements indicated by the Commerce Code, they must obtain municipal licenses for commercial operations which are regulated by special statutes of each Municipality and that, frequently, are very high because they are calculated over the net profit of the business. Currently commerce is the most affected sector by the economic crisis due to the increase in prices of imports, specially those who import goods, which are the majority.

Commerce is also affected by strict price controls and regula-

ted profit percentages, established in the Law of Consumer Protection. Price inspectors of the Ministry of Economy may accuse them and take them to court if they do not comply with the maximum prices established. In general terms, commerce do not possess sufficient incentives and, in periods of economic crisis like the current one, it is considered an activity not worthwhile of promoting.

d) Construction Sector:

The main disincentive for construction has been the Law of Urban Leases (Law N° 680 of September 3, 1946, amended by Law N° 4898 of November 15, 1971). This statute regulates the lease contracts of houses, commercial premises and offices for professionals. It is a statute of public order, which means that its provisions modify any particular agreement made by private parties . It also limits the increases in payments for five years. After five years, if the parties do not agree in a price, a judge will decide the controversy, determinating the lease payments to be paid during the next five years. Lessor and lessee may agree freely the time period of the lease, but in no event this term will be less than five years for the lessee. Agreements which do not have an expiration term are indefinite and only in very qualified and limited cases the lessor is entitled to recover the house (default in payment, family use, moral faults, etc.). In the event of the sale of a business, the acquiring party does not have the right of eviction against the lessee.

This statute was enacted many years ago, and is an important obstacle for the construction sector. Real estates dedicated to rentals in urban places have a very low economic return and

there is an important housing deficit. For social reasons, it has been impossible to derogate or, at least flexibilize, the effects of this statute.

EXPORTS LEGISLATION:

A.- Tax Incentives for export promotion:

The Law of Export Promotion N° 5162 of December 22, 1972 and its Regulation created a tax incentive scheme for non-traditional products' exporters, with the purpose of increasing the volume and value of national exports to third country markets.

The Law designs as traditional products: non dried coffee in grain, dried or elaborated coffee, banana in fruit cocoa in grain, sugar cane without refining, basic grains, non elaborated tobacco in branch , cattle in foot except pure or purified, non elaborated cattle leather, cattle meat, refrigerated fisheries, cutted wood, or in parts non processed minerals, including scrapped metal, gold minerals including gold in bars , coal, tuna fish and cotton. Non of these products qualify for the benefits of the Law, even though the list may be modified by the Ministry of Economy.

Companies which qualify for the benefits granted by the Law are those which export non traditional products to markets outside of Central America. Merchandises exported must contain at least a 35 % of domestic value added and must have a minimum of 60 % of Costa Rican capital. Natural Costa Rican persons and foreigners with 5 years of residence in the country, which comply with the foregoing requirements, also qualify.

The tax incentives granted by the Law are:

1.- Certificates of tax installments(CAT):

It consists in a certificate, issued to the bearer and freely negotiable, totally exempted from taxes, with a maturing period of 12 months and valid for 12 months, issued by the Central Bank, which is equal to a percentage of the FOB value of export.

The certificate will be of a 15 % of the FOB value of exports for non traditional agricultural products with agroindustrial process and for non traditional agricultural products which require a special technology for their production. The certificate will be of a 12 % for non traditional agricultural products without industrial process and for non traditional industrial products.

2.- Certificate of export increase (CIEX):

They are also certificates issued to the bearer by the Central Bank, freely negotiable and tax free payable upon presentation valid for 2 years, which equals a percentage of a 10 % of the increase in the FOB value of exports obtained with respect to the preceding year.

For the granting of this incentive qualify the foregoing companies and also the companies which have less than a 35 % of domestic value added, companies which qualify for the Transitory Importation Regime and companies which are dedicated to tourism promotion and agronomic research activities.

These companies will receive a certificate equivalent to a 10 % of the increase in the FOB value of exports in relation with the preceding year, except the tourism promotion and agronomic research activities, which will receive a percentage established by the Central Bank in each individual case.

This benefit is also enjoyed by qualified exporters who export their goods through a national transportation company or multinational, with Costa Rican participation. They will be given a certificate equivalent to a 10 % of the value of the transportation fee to the foreign country.

3.- Temporary Importation Regime (draw-back):

The benefits granted by this Regime consists in total exemption from import taxes over the raw materials, capital and intermediate goods for a time period of 12 months, which are imported by companies with the purpose of incorporating those goods to merchandises produced, manufactured or ensembled in the country and destinated to exportation. In any way, the final products may be sold in the Costa Rican market, without paying the taxes which were exempted.

The Ministry of Economy may allocate, among the national export companies, the exportation quotas of products which are going to be exported to countries with quantitative and qualitative controls of importation.

The main defect in the system of granting CATS and CIEX is the fact that the certificate is tied up to percentage of the exportation value, instead of tying it up to the domestic value added. This defect incentivates the companies to import the major part of the final product's content, instead of adding domestic value, since the benefit is tied up to the exportation price, without discriminating between imported and domestic value added.

B.- Exportation Disincentives and Regulations:

Among the main disincentives and Regulations which affect

the exportation of goods, from a legal standpoint, we can enumerate the following:

1.- Exportation Permits Required in Addition to the Exportation License:

All and every product exportation must have an exportation license, duly issued by the Central Bank with the purpose of fiscalizing the exporter's receipt of foreign currency, which is mandatory to reimburse to the Central Bank.

Nonetheless, there are certain products which, in addition to the exportation license, need additional permits from public institutions, due to the facts that such exportation is restricted or because it requires especial sanitary quality or quantity controls. Products affected by this additional permit are meat, basic consumption products strategic materials, pure cattle, wood and its subproducts, maritime fisheries, sanitary certificates for animals, sanitary certificates for vegetables, cattle in foot, wildlife animals and river fisheries, cattle in general and cattle semen, raw leather, scrapped metal, fertilizers, cooking oil, raw materials and cattle concentrates and exportations to South Africa.

The obtention of these additional licenses delays in a considerable form, the exportation procedure, specially in non-durable products.

2.- Exportation Taxes:

Another main export disincentive is the extended practice in our country of imposing export taxes when a devaluation of our currency occurs. The purpose of this practice is to reimburse part of

benefits which accrue to exporters as a consequence of the devaluation of our currency. Said tax is, from a legal point of view, equivalent to a percentage of the export value (ad-valorem). Another mechanism frequently used, simultaneously with export taxes, is to liquidate to exporters a percentage of the export value at a lower exchange rate than the free market exchange rate, which means, from an economic point of view, another tax.

Exportation taxes have proved to be one of the most important financing sources of the State, specially in times of low importations caused by their contraction and the multiple existing exemptions. Definitely, exportation taxes leaves the exporter without the incentive of producing as a consequence of the devaluation. In another chapter, we will describe the current exportation taxes.

3.- The System of Liquidation of Foreign Currency to Exporters:

Probably, the most important factor to incentivate or disincentivate exports is the system of liquidation of foreign currency which the Central Bank adopted to pay exporters, in national currency, the value of their exportations. Depending on it, the exporter will receive more or less payment for his production and exportation.

Article 94 of the Organic Law of the Central Bank obliges all and every person which have received foreign currency from exports to negotiate them only with the State commercial banks and with authorized financial institutions to assure that foreign currency arising from exports are reimbursed to the Central Bank in a maximum term of 15 days, from the date in which they were received. This article

prevents exporters from negotiating foreign currency in the free market. Exporters will have a better incentive to reimburse foreign currency to the Central Bank and to export if the liquidation exchange rate is realistic and near to the free market exchange rate. If there is a considerable difference between both exchange rates, exporters are likely not to reimburse the foreign currency to the Central Bank and use unlawful and legal mechanisms to avoid delivery of foreign currency.

Currently, the system of liquidation of foreign currency for exporters is the following: Exporters must deliver to the Central Bank, directly or through the commercial banks or authorized financial institutions, the foreign currency obtained from exports payments, within 15 days following their receipt. The Central Bank liquidates a 90 % of the foreign exchange at an exchange rate known as "free banking exchange rate", which is approximately in this date of ¢38 per US$ 1. The other 10 % is liquidated at the official exchange rate, which is of ¢20 for each dollar. If we take into account that the free market exchange rate is, as of today, of approximately ¢50 per dollar, we must conclude that there is a hidden tax, additional to exportation taxes, which consists of the difference between the two exchange rates used to liquidate foreign currency and the free market exchange rate. This fact has occasioned that exporters are not willing to reimburse total payments in foreign currency to the Central Bank, even though there are strong money sanctions for non-compliance.

The new government has announced its desire of enacting

legislation which tends to centralize even more the export foreign currency market. The proposed system consists in that export payments should not be made directly to exporters, but to the Central Bank, through direct payments, credit letters and other legal instruments, in order to prevent exporters' evasion of the duty of reimbursing foreign currency to the Central Bank. The exporter will be paid an 85 % of the exportation value at the "free banking exchange rate" and up to a 15 % at the official exchange rate. On the other hand, the Central Bank will assign the foreign currency received for prioritary importations according to a graded list. The state commercial banks will assume the monopoly of transactions with foreign currency with the purpose of preventing speculation in the free market. This new system will disincentive an increase in exports since the difference between the liquidation exchange rate and the free market (or black) will be higher. It is very likely that a black market will be operating with foreign currency transactions.

5.2 MONETARY LEGISLATION

Costa Rican Monetary Legislation has suffered severe changes and has had important effects in the last two years, due to the depreciation of our currency. Most important consequences have been produced in the legal aspects which regulate payments of debts agreed in foreign currency, mainly in dollars, United States of America currency. In this section, we will analyze the Law of Devaluation of our currency enacted in November, 1981 and its reforms, and the treatment given to the "foreign currency bottleneck" during the current economic crisis of our country.

A.- LAW OF NATIONAL CURRENCY:

Articles 4 and 5 of the Law of National Currency state that the bills and coins issued by the Central Bank constitute the legal payment instrument in Costa Rica and have unlimited legal tender for all public and private debts. Article 6 of the same Law, also states that prices, salaries, compensations, indemnizations, assets and everything which implies use of money and must be paid in Costa Rica, has to be expressed in colones.

Nevertheless, article 6, parragraph 2°, permits the execution of contracts and debts in foreign currency. In that event, the debtor or contractor may, to his choice, make payments in foreign currency or in colones at the official exchange rate in force at the date of payment. This choice of currency to pay, left to the will of the debtor, had not been legally important while the Central Bank had enough monetary reserves to maintain the official exchange rate, equivalent or very near the free market exchange rate, in the country.

What happened before, was that the official exchange rate was accurate with the international monetary reserves of the country, and that is why a parallel foreign currency market never emerged before.

The Costa Rican monetary problem emerges when the loss of international monetary reserves of the Central Bank and the structural economic situation of the country, could not maintain any longer the equivalence between the official exchange rate and the free market exchange rate. In other words, when the monetary depreciation appeared. The Board of Directors of the Central Bank, based on the power granted by article 35, 1, c) article 99, parragraph 3 of the Organic Law of the Central Bank and article 2, b) of the Law of National Currency, which authorized them to modify the official exchange rate temporarily without the approval of the Congress, decided to suspend the official exchange rate in force and adopt a system of fluctuating exchange rates, whereby the supply and demand will establish the official exchange rate.

The decision of the Board of Directors of the Central Bank was attacked by an unconstitutionality lawsuit against the articles which authorize the Central Bank to suspend the official exchange rate. The unconstitutionality claim argued that the only Branch with enough powers to devaluate our currency was the Congress, based on article 121, 17 of our Political Constitution. The Supreme Court of Justice accepted the unconstitutionality claim and established that the only Branch with powers to change the official exchange rate in the country was the Congress.

This Court decision brought very important consequences to the private sector. Firstly, the official exchange rate kept being ¢8.57

per dollar, while the free market exchange rate increased constantly every day. On the other hand, the Central Bank did not have enough foreign currency to attend, internal demand and was less willing to grant its small reserves of foreign currency at an unrealistic official exchange rate.

Secondly, this Court decision had an enormous incidence over the debts and contracts of the private sector. The majority of Costa Rican debtors who had debts payable in foreign currency, before the fact of a ficticious and low official exchange rate in force, decided to exercise the choice which article 6, 2°parragraph, of the Law of National Currency gave them. Debtors paid said debts and contracts, agreed in foreign currency, at the official exchange rate, in colones, which was quite lower than the free market exchange rate. The risk of devaluation was transferred exclusively to creditors. Payments by debtors were deposited in Court to the order of the creditor, due to the fact that creditors did not want to receive those payments.

The incidence of monetary problems was quite different over Costa Rican debtors which had debts and contracts in foreign currency payable outside of Costa Rica. Pursuant to article 7, 1) of the Law of National Currency, debts and contracts which were payable from Costa Rica to a foreign country or viceversa, and those that were directly connected with national export and import transactions and financing, had to be paid exclusively in the agreed currency. This meant that Costa Rican debtors did not have the choice of paying those debts in colones at the official exchange rate. Costa Rican corporations with debts in foreign currency to be paid to foreign companies and institu-

tions were the most affected ones. Being imposible to obtain the foreign currency necessary to repay the debts at the official exchange rate, said Costa Rican companies had to go to the free market to purchase the foreign currency, experiencing an increase in their debts equivalent to the increase in the free market exchange rate. The economic situation of these companies has been the worst and has occasioned multiple bankruptcies, at least in an economic sense, due to the losses incurred by exchange differences. It has also provoked a great fear on the part of Costa Rican entrepreneurs to contract loans in foreign currency, given the monetary unstability and the big fluctuations that our currency has had in the free market in relation to foreign currency.

It is also important to indicate that there is another unconstitutionality lawsuit presented before the Supreme Court of Justice against article 6, 2° parragraph of the Law of National Currency. Its purpose is to declare the unconstitutionality of the choice given to Costa Rican debtors to pay debts agreed in foreign currency and payable in Costa Rica, of paying in colones at the official exchange rate. In the event that the unconstitutionality lawsuit is accepted, the contractual liberty to agree on debts payable in foreign currency exclusively, will be reestablished. Nevertheless, until the Court does not issue their judgment, Costa Rican debtors continue enjoying the choice of paying said debts in colones at the official exchange rate.

B.- <u>LAW OF NATIONAL DEVALUATION</u>:

As a consequence of the monetary problems occasioned by the

the decision of the Supreme Court of Justice, it was necessary to enact legislation which modified the official exchange rate of ¢8.57 per dollar, with the purpose of adjusting the official exchange rate to the reality of the free market and so, the state would not lose money from the collection of taxes and other types of income.

The Congress, after discussing approximately two months, finally approved the "Law of National Devaluation" N° 6696 of November 26, 1981, amended by Law N° 6707 of December 22, 1981. The Law of National Devaluation not only includes the modification in the external value of the colon in respect to the dollar, United States currency, but also included other aspects relationed with the effects in the modification of the official exchange rate.

The devaluation of the colon was established by a reform to article 3 of the Law of National Currency and it established the external value of the colon in ¢1 equals $0.05, or ¢20 for each dollar, United States currency. It must be clear that the new official exchange rate was very low in relation with the free market exchange rate, which in that moment was approximately of ¢33 for each dollar. Hence, the intention of Congress was clearly not that the official exchange rate would be near the free market exchange rate.

Congress, in addition to the new external value of the colon, created an additional tax on the exchange differences which exporters will receive as an effect of the devaluation, and that will be dealt with in the chapter of the Tax System. Not only did they establish an export tax, but they also assigned priorities in which the amounts collected by said tax, would be spended. By order of importance, the

expenditures were: an increase in wages for public employees, a subsidy for fertilizers (see chapter I), a subsidy for Costa Rican students in foreign countries, a subsidy for the Social Security for the purchase of medicines and a subsidy for the National Institute of Cooperative Promotion. Up to this date, the results of the tax do not even cover the financing of the first priority.

It was also included a Chapter in the Law of National Devaluation destinated to strengthen the price controls established in the Law of Consumer Protection (see Chapter IV). The list of basic consumption goods was broadened and the Ministry of Economy was obliged to expend the controls and increase the price inspectors. The Ministry of Economy was also granted the powers of changing prices and profits percentages through Boards of Consumer Prices Adjustments. The National Council of Salaries was also entitled to decree a general increase in the salary of public employees in the next 30 days.

Finally, the Law amended article 94 of the Organic Law of the Central Bank, restricting the possibility of practicing sale and purchase of foreign currency activities in the free market, only to commercial banks and authorized financial institutions. It also established very strong criminal sanctions to the persons who did not comply with the restriction of dedicating to the transactions with foreign currency.

C.- TREATMENT OF THE FOREIGN CURRENCY BOTTLENECK:

In 1980, the monetary reserves of the Central Bank were dramatically reduced to a point where the National Banking System

had problems to meet the foreign currency requirements for imports. In September of the same year, the Central Bank agreed to grant only a 50 % of foreign exchange to importers at the official exchange rate and the rest should be acquired in the free market. After a while, the Central Bank was not able to meet the 50 % of foreign currency due to its scarce monetary reserves. That was why in December of the same year, the Central Bank suspended the official exchange rate and sent all the foreign currency to the free market.

In those days, the Central Bank had accumulated a great quantity of foreign currency applications and bound itself to grant the foreign currency applied for, before September 20, 1980, although it did not have any legal obligation of doing so. Every person or corporation who had foreign currency applications filed, had to pay the Central Bank the amounts applied for, at the official exchange rate (₡8.60 per dollar), and the Bank recongnized them the difference between the official exchange rate and the free market exchange rate by issuing to their order certificates of deposit in US dollars, payable in 3 years. A sixth of the amounts included in the certificates of deposit were to be paid every six months with their interests, estimated at the LIBOR rate. Nevertheless, due to the scarce monetary reserves, the Central Bank did not comply with its obligation to pay the certificates of deposit and suspended all payments of public debts in foreign currency. This situation damaged severely the economic standing of Costa Rican companies which had deposited their working capital to obtain the certificates of deposit in dollars issued by the Central Bank.

412

5.3 TAX SYSTEM STRUCTURE

The Code of Tax Regulations and Procedures, enacted by Law N° 4755 of May 3, 1971, regulates the general principles applicable to the imposition and collection of taxes. It establishes that the creation, modification and extinction of taxes and exemptions must only be done by law of Congress. The Code regulates: A.- Tax liability and its elements: active and pasive taxpayers, moment when tax liability emerges and the forms of termination of tax liability; B.- Applicable sanctions for tax evasion; C.- Administrative procedures before the Tax Administration; D.- Administrative and judicial appeals; and E.- Court and out of court collection procedures.

In Costa Rica, indirect taxes account for a 79 % of total tax receipts.

Due to the existence of a great number of taxes, we will only summarize the most important ones, measured by its incidence over the amounts collected:

A.- Import Taxes

1.- Custom Tariffs: Law N° 1738 of March 31, 1954, modified by Law N° 3145 of August 6, 1963. It is a typical protectionist instrument. These taxes are imposed on the importation of merchandises which are entering tthe country's economic circuit. Tariff duties are composed of two taxes: the ad-valorem and the specific taxes following the NAUCA (Central American Uniform Tariff Classification) and which is very different from the NCCA (Custom Cooperation Council Classification), accepted by the majority of countries. The monetary unit for the specific tax (whose tax base is represented by physical quantities,

meters, kilos and units) is the Central American peso, which is equal to the US dollar. The ad-valorem tax is charged over the customs value of the merchandise. Currently, our Customs Department uses the official exchange rate for the specific tax and the free banking exchange rate for the ad-valorem tax.

2.- Economic Stabilization:

Law N° 4635 of August 19, 1970 and Law N° 6143 of November 3, 1977 which extended the application period to November 8, 1983. This tax was adopted by the Protocolo of San José, Balance of Payment Emergency Measures of the Central American Common Market in San José the first of June, 1968. It consisted in a 30 % tax over the liquidated import taxes.

3.- Overcharges on imports:

It is considered a temporary overcharge on certain imported articles and not a tax. It was created by the Central Bank's Board of Directors in December of 1975, based in the powers granted by the Organic Law of the Central Bank to establish quantitative and qualitative limitations on imports in situations of economic crisis. It has been argued that it is an unconstitutional tax imposed by a Branch which is not the Congress. Currently, the overcharges have been extended to all articles imported and it is of a 1 % over the CIF value, except for motor vehicles with more than 1250 cubic centimeters, which have an overcharge of 200 % and makes almost impossible their importation.

4.- Hospital stamps:

Law N° 2854 of November 6, 1961, amended by Law N°3145

of August 6, 1963.

Consists of a 3 % tax on liquidated import taxes of merchandise whose tariffs are not equilized by the Treaties of Central American Economic Integration.

- Consular tax:

Law N° 4 of September 26, 1930.

Consists of a 2, 4 and 8 % tax on liquidated import taxes of merchandises whose tariffs are not equilized at a Central American level.

6.- Port Taxes:

Law N° 1738 of March 31, 1954.

It is a tax of ₡0.03 per kilo of gross weight on merchandises not equalized at a Central American level and which have partial or total exemptions of import taxes.

Added to the foregoing import taxes, we should mention that imported goods must also pay the sales tax and in certain cases, the consumption tax. Both taxes are described in this chapter.

B.- Income Tax:

The income tax applies only to income generated in Costa Rican territory, independently of the citizenship, domicile or residence of the taxpayers and the place of execution and performance of agreements. The tax taxes liquid income, defined as the difference between gross income and legal permitted deductions.

The rates are progressive and they reach a maximum of 50 % for physical persons and corporations after ₡1.000.000. Corporations are obliged to present a consolidated income tax return when more

than one corporation performs similar or complementary activities to others and 51 % of its capital is owned by the same shareholders.

The Income Tax Law also establishes a withholding tax on payments made by a person domiciled in Costa Rica to its shareholders or persons domiciled in the country; and also on payments of Costa Rican source income to non-domiciled persons in foreign countries. These amounts obtained from teh withholding tax are considered the only tax liability of the beneficiaries, who do not have to include such payments in their personal taxable income, avoiding double taxation.

C.- Real Estate Taxes:

Law N° 27 of March 2, 1939 and its reforms; the last one was Law N° 5470 of December 17, 1973.

It is a tax imposed on inmobiliary property and its collection is destinated to the country's municipalities. The tax is calculated over the land, fixed assets and constructions and the plantations which exists in them. It also includes the value of the building's fachade, machinery and all mobiliary property which is necessary for the exploitation of the business performed in the land. The tax must be paid by the owner of the real estate; being or not registered in the Public Registry. The shareholders of a corporation are jointly liable on the payment of real estate taxes of their corporation, except anonymous societies' partners. The tax is calculated over the appraisal of the assets, made by the Tax Administration. The rates vary in a range of 0.30 % yearly for properties which do not exceed from a value of ₡250.000 and a 1.05 % on properties whose value

exceeds from ₡3.000.000.

D.- Tax on Real Estate Sales:

Law N° 5309 of June 10, 1976, reformed by Law N° 6153 of September 21, 1977.

The tax is charged over the value of the real estate transfers, independently of the legal agreement. The difference with the real estate tax is that machinery and mobiliary property used in the exploitation of the business performed in the real estate, is not part of the tax base. There are a lot of exemptions from this tax, due to social reasons.

The rates vary from a 1.5 % for real estate transfers of a value lower than ₡400.000 to a 4 % when the value exceeds ₡1.000.000.

E.- Selective Consumption Taxes:

Law N° 4961 of March 10, 1972.

It taxes the sales and importations of certain goods set forth in a list elaborated by the Executive Power. The applicable rate cannot exceed 50 % of the good's value, except in qualified exceptions in which the rate can be increased to a 100 %. The Executive Power have the flexibility of modifying the rate, eliminate and include new goods in the list. The only taxable goods are final consumption goods and articles of nonessencial consumption. As a general principle, it is required that there exists Central American production of the goods which are taxed, in order to prevent attempting against free trade in Central America. Regarding national production, the tax base is the cash sale price in the manufacturer's stage and for imports, the tax base is the CIF value, plus import taxes plus

economic stabilization tax.

F.- Sales Tax:

Law N° 3314 of July 14, 1967 and Law N° 5662 of December 23 1974.

Sales tax must be paid on:

a) Title - - transfers of merchandises situated in national territory, except for inmobiliary property and exports.

b) The value of restaurant, bar, night club, recreatio: and similar services, repair workshops and painting establishments fo: vehicles.

c) Imports of new or used merchandise.

The rate is a uniform 8 %. The tax base is the sales price, including the selective consumption tax minus the usual discounts granted.

In imports, the tax base, is the CIF value plus the amount stated of other import taxes and expenses which are expressed in the internation license.

It is a value added tax, charged over the different production and commercialization stages. Tax payers are physical persons and corporations whose yearly volume of sales reach the ₡300.000.

Tax payers must register with the Tax Administration and present monthly sworn returns declaring the amount of their taxed sales in the preceding month and they must liquidate and pay the tax due.

The sale of certain goods is exempted, mainly products of basic consumption, inputs and capital goods used in agriculture and

cattle.

G.- Export Taxes:

a) Law N° 5519 of April 24, 1974 and Executive Decree 126034 of May, 1982.

It created a tax on the FOB value of exports, with rates from a 1 to a 18 % on exports to third markets and from 1 to 7 % on exports to Central America. The Executive Power may establish the rate, between the indicated margins. Executive Decree 12445-H of 1981, created an ad-valorem export tax of a 6 % to non-traditional exports to third markets, 4 % on exports to Central America and Panamá, a 1 % on banana and cocoa exports, a 4 % on meat and shrimps and it imposes an adjusted rate to coffee exports according to price variations. This rate cannot vary from a range of 4 % when the value of the coffee sacks of 46 kilos has a price lower than US$95 and up to 18 % when the FOB value exceeds US$ 191. Even though the great increase was temporary and must have been reviewed on April 1, 1982, the decrees have continue in force, due to the fact that the economic situation which motivated the increase continues.

b) Tax on monetary differences:

Law N° 5696 of December 3, 1981, amended by Law N° 6707 of December 22, 1971 and regulated by Decree N° 13274-H of January 16, 1982.

It created a tax on the monetary differences resulting in colones, between the free market exchange rate of the day in which the foreign currency arising from exports is liquidated and the official exchange rate of ¢20 per dollar. This difference is based in the conversion in colones of the FOB value in dollars of exports,

411

applying both exchange rates.

The current tax rate is of a 10 % for traditional exports and a 5 % for non-traditional exports to Central America and Panamá. This statute will be in force for one year, until December 10, 1982.

c) Other export taxes:

Traditionally, there have been export taxes for certain goods in which the country has considerable comparative advantages: sugar cane, cocoa, coffee, banana, fisheries, seafood, and wood.

d) Banana Export Tax:

Law N° 5515 of April 19, 1974.

It was created a tax of US$1,oo for every box or container of banana of 18.40 net kilos (40 pounds) which are exported. A part of US$0.95 of the tax corresponds to the Central Government and US$0.05 to the producer The central government has assigned a percentage of the amount collected to the National Banana Association in order to finance an Agroindustrial Diversification Fund for banana plantations.

Law N° 2 of September 4, 1930, created a tax of US$0.02 on every banana plant which is exported.

e) Customs tariff:

Article 44 of Law N° 1738 of March 31, 1954 created an exportation tax for the following products: fisheries, seafood, coffee (US$0.20 per 46 kilos sack), cocoa, wood, scrapped metal, metal containers, reexportations and exportations of merchandise of foreign origin. The rates are not significant and almost all are of specific character (by measure units).

LAW PROJECT OF INTEGRAL TAX REFORM

1.- Income Tax Law:

a) Corporation Income Tax:

Corporations will pay a tax rate of 30 % over their profits, independently from the legal form which they adopt with the purpose of not fragmenting artificially the corporations. The available income, which is defined as the taxable income minus the tax paid at the corporation level, is imputed to the personal income tax of shareholders in the event of dividend distribution. In the case of societies of persons, profits which are reinvested will not be imputed to the personal income tax liability of its beneficiaries. In the societies of capital, the available income will be imputed to shareholders if the corporation's profits are higher than the suscribed capital. In general, the effective rate of the corporation's income tax is reduced, with the purpose of promoting production. Excedents distributed by cooperatives and solidary associations do not pay the corporate tax, but their beneficiaries must include, in their personal taxable income, the amounts received from the cooperatives.

b) Personal Income Tax:

It introduces the principle of taxation upon worldwide income. The progressive rate structure is modified, were the highest tax bracket is of ₡700.000 and pays 50 % of taxable income. A presumption of net income is established for agriculture and cattle exploitations for an amount equal to a 15 % of the value of the pro-

perty, even though it admits evidence on the contrary. Capital gains are taxed with an only rate of 15 % and inheritance is taxed with a tax that increases in relation with the familiar link between the deceased and the heir.

c). Withholding Tax on Payments to non domiciled Persons:

The rates of the withholding tax on payments made to non-domiciled persons are increased to a 25 % for profits, dividends or social participations; a 30 % when the payment is a deductible expense of a domiciled corporation in the country; and a 35 % for the other cases. The effective tax rate for a foreign company will be of a 47.5 % (35 % on profits and 25 % over payments taken from the 70 %).

2.- Law of Modification of the Real Estate Tax:

It is excluded from the tax base the investment in plantations, machinery and mobiliary assets which are dedicated to the exploitation of the land and constructions. To corporations which declare a net income higher than a 15 % of the registered value of the land, it is granted a tax credit for the same amount and they are permitted to deduct from their gross income the land taxes. It establishes an increase in the tax base, eliminating exemptions to certain public and private entities and increasing the rates that will be of a 0.4 % in properties with a value less than ₡500.000 and a 1.3 % for properties with a value higher than ₡1.000.000. It also establishes two additional taxes: An increase equivalent to 75 % of the value of the real estate tax starting in 1982 to certain inmobiliary property; and a progressive tax on the value of the recreation and habitation houses starting in 1983, whose rates will range between a 0.25 % for houses

with a value higher than ¢500.000 and a 1 % over the excedent of ¢3.000.000.

3.- Law of Transit Taxes:

The current taxes on vehicles are consolidated. The objective is to tax higher the acquisition of expensive and high gas consumption vehicles and disincentive the use of diesel vehicles through an additional tax. Said taxes are imposed according to the weight of the vehicle and have an ad-valorem tax on the cash sale price of the vehicle according to the model and the class of vehicle. This tax will be reduced a 10 % yearly until freezing the tax base in a 40 % of the original cost. For diesel vehicles, an additional tax proportional to a 100 % of the current one, is created. The administration of this tax passes to the Tax Administration.

4.- Sales Tax Law:

The tax base is broadened, reducing the current exemptions granted to certain goods and services. The general rate is increased from an 8 to a 10 %. Its main purpose is to convert the tax into a true value added tax. Only exemptions left are goods of basic consumption and medicines. It eliminates the specific destination of the collected amounts.

5.- Law of Consumption Taxes:

It is modified to establish rates of a 50 % on non-essential goods, a 25 % on goods consumed by middle and high classes and a 10 % for goods which are not strongly consumed. Popular consumption goods are not taxed. The Executive has the power of increasing the rates in each group up to 15 points, of including new goods which are simi-

lar to taxed goods or to eliminate completely a taxed good. Tax rates of goods consumed by middle and high classes may be increased by the Executive Power in a maximum of 100 % with the previous Congress approval, only once each six months.

6.- Law of Consolidation of Minor Taxes:

Its purpose is to put order and uniform minor taxes which are very old or have a scarce collection level. They are modified or eliminated. The majority of legal stamps in favor of public institutions are converted in fiscal stamps in order to keep a unified collection of taxes. The affected taxes are: on radio, fishing boats, transportation, recreation, trademark registration, permits and rewards, communications and others.

7.- Reforms to the Tax Regulations and Procedures Code:

These reforms have the purpose of broadening the Tax Administration's powers to search for banking information, record computarized programs of accounting systems from taxpayers and, in every form, give more and better opportunity to the Tax Administration to reach information about taxpayers' receipts.

8.- Law of tax measures of immediate application:

Its purpose is to increase, with a temporary character, the income tax liability of current taxpayers in order to enhance tax collection for the 1982-1983 period.

It creates a tax overcharge to be paid according to the tax paid in normal conditions. If the tax paid in normal conditions is of:

	¢10.000	the additional tax is a 15 %
over the excess of ¢10.000	to 100.000	20 %

over the excess of ₡100.000 to ₡500.000.....25 %

over the excess of ₡500.000 .....30 %

It also creates an overcharge of 1.5 % on the gross profits in books of persons which do not tax, or in the proportion that they do not tax, because they are enjoying of legal exemptions.

OBSERVATIONS AND RECOMMENDATIONS ABOUT THE TAX SYSTEM

1.- The Costa Rican Tax System is very regressive. Almost 30 % of total tax receipts arise from indirect taxes, such as sales taxes, selective consumption taxes and customs duties, which directly incide on the consumers patrimony.

2.- Taxpayers' non-compliance and morosity has increased significantly, due to the inflationary and monetary problems. Private enterprises' decapitalization is a consequence of the Central Bank not paying the certificates of deposit in dollars of the "foreign currency bottleneck". An estimation of the pending tax collection approximates to ₡600.000.000 and the sales tax has a non compliance rate of a 33 %. Due to the lack of banking credit, private enterprises are using their tax liabilities as a way of finance, with the social security charges. It will be convenient to design a system for tax payment settlements in accordance with the enterprises ' financial statements and granting them attractive benefits, such as longer periods, exemptions of fines and interests.

3.- The Income Tax Law is badly conceived and structured. It promotes fiscal evasion. Private corporations are mainly closed familiar organizations with false accounting and not likely to open to new investors. Dividend distribution is poorly taxed and unfair, bearing only a 5 % tax as the only liability and received dividends are not imputed to personal tax liability of shareholders. The progressive rates in the corporation income tax promotes income fragmentation in several fictituous corporations and the consolidation mechanism does not work, due to the low performance level of our Tax Administration.

4.- In the case of consumption taxes and the Central Bank's overcharges, the Executive Power has a great flexibility to modify rates and goods taxed. These variations are constant and the criteria to apply these taxes is contradictory sometimes. In 1979, the Government lowered taxes on electrodomestic apparati and in 1981, taxes were again raised. The change in policy causes great insecurity to private entrepreneurs who are not sure about the rules of the game and do not know which activities are promoted and which are desincentivated. A limit on the Executive Power's discretion would be very convenient.

5.- Government receipts have rested upon export taxes, which have increased significantly in the last months. Export tax increases are justified on the grounds of recovering part of the benefits granted to exporters by liquidating to them their foreign currency at a free market exchange rate which doubles the official exchange rate (Ø38 the first and Ø20 the second). It is soundly contradictory a governmental policy which, in one hand, increases export taxes for all goods, and in the other, incentivates exports by granting exemptions and tax incentives. An exportation is taxed, simultaneously, with a tax and benefitted with a certificate of tax installment, in the case of non traditional exports. The administration of the incentive and the tax has a high cost, such as the administration of all the additional export licenses which exporters must comply with.

In order to export goods, an exporter must complete and obtain several licenses in different public institutions, instead of centralizing all the procedures in the exit customs agency. Sometimes, there is no flexibility in the requirements to export. It is impossible to

export goods in a weekend in a ship with space that is leaving, due to the fact that the public institutions do not open and do not have agencies in the customs place.

6.- Import duties and other customs duties are based in an obsolete classification of statistic character (NAUCA). This classification brings great uncertainty to the importer. Because of its defects, a good can be classified in two or more tariff entries. Customs authorities always prefer the entry where the rate is higher and benefits the government. Criteria for classifying is constantly changed and differs from one custom agency to the other, so the importer has to plan his importations through the custom agency which is more favorable to his interest. It is necessary to use a more modern classification and adapt it to the requirements of international trade, as the classification of the Customs Corporation Council.

The Value Office of the Customs General Direction can modify the value declared by the importer 6 and 8 months after internation, once that the merchandise has been sold by the importer. This fact adds another degree of uncertanty to the productive activity. It is convenient to regulate and restrict the term which the custom authorities have to change the value of imports, except in cases where there has been a fraud.

It is still in force the Executive Decree N° 12570-H of April 29, 1981 which adopted the definition of value of Brussels and its explanatory notes. This system permits customs agencies to act with unfairness and arbitrariness. The importer has the burden of evidence.

The definition of value from Brussels has almost 20 years and many countries, like Japan and United States never accepted it. Since 1981, fostered by the GATT, a new international system of value was adopted instead of Brussels, and it was accepted by the European Economic Comunity, other European countries, Canada, Australia, United States, Japan, Brasil, Mexico, Argentina, etc. Under this new system, the possibility of changing values is restricted. It is, therefore, convenient to study the possibility of adopting the value system of the GATT in a short or medium term.

7.- The procedure for granting exemptions is very slow and complicated. In certain cases, it is necessary to obtain permits from 3 or 4 public offices before receiving the exemption. This fact affects significantly the industries enjoying incentives and those who are dedicated to the draw back. The procedure for obtaining an exemption lasts approximately 15 days, with the consequent delays in the productive process. The procedure may be faster and better if the customs agency has complete control on the exemption statutes and grant directly such exemptions.

8.- Industries dedicated to draw back are obliged to render guarantees, in the form of promissory notes, before the Customs Direction. These companies have currently signed promissory notes for an amount of ₡80.000.000, which means paying in legal stamps the amount of ₡320.000. A new system of guarantees must be looked for, such as public accountant's certificates.

5.4 LAW OF CONSUMERS PROTECTION

Law N° 5665 of February 28, 1975.

The Law of Consumers Protection grants the Ministry of Economy enough powers to establish official prices and maximum profit percentages on the sale of goods and services which are necessary for national production and consumption and for an adequate supply and distribution.

The National Council of Production will establish jointly with the Ministry of Economy consumer prices to those goods whose price and supply are regulated by the CNP. Price control can also be effected in the import and export stages.

The purpose of establishing maximum profit percentages is to contribute to price stability and permit a reasonable profit margin taking into account the commercial characteristics of the product and the aggregate demand in the national market.

Among the powers which the Ministry of Economy has to fiscalize the compliance with this Law, the must important are:

1.- The power of confiscating those goods which are offered in sale at prices and profit percentages higher than the indicated by the Ministry of Economy or for those goods which are hidden with the purpose of causing price increases;

2.- The Ministry of Economy is also permitted, temporarily, to import, tax free, certain products, when there has been an interruption or decrease in the productive capacity or in the supply of raw materials and final consumption goods. Recently, the Ministry of Economy has used these powers to recommend total exemption on imports of

sugar cane, corn, leather, etc.

3.- The Ministry of Economy can prohibit and establish exportation quotas, when there is a scarce production in the national market. The Executive Power has used these powers to regulate the exports of sugar, coffee, rice, beans, wheat, flour and other products, which are sold in the domestic market at subsidized prices and which are likely to be smuggled to Panámá and Nicaragua, taking advantage of the price differences between the domestic price and the international prices.

4.- The Ministry of Economy may regulate and establish quotas for the distribution of consumption articles and is also entitled to avoid monopolistic practices in the market. The establishment of quotas has been very frequent in the last year. Like we mentioned in other sections of this study, traditional exports which are highly consumed in the country, such as meat, sugar cane and coffee and whose prices for national consumption are very low compared with the international market, are being strictly regulated and this fact is causing distortions, speculation, smuggling and disincentives for the producers. The National Council of Production also establishes quotas to commercial businesses, specially those in the border, to prevent smuggling to neighbor countries, which anyway are produced.

The Law has a procedure in order to review the official prices caused by variations in the costs of production. The Ministry of Economy has one month to make a study and determine the new price. If the Ministry of Economy does not answer in one month, the interested

party may sell the product at the new price applied for.

Finally, the Law imposes severe criminal sanctions to the persons which do not comply with the foregoing provision, including prison.

BOARDS OF PRICES ADJUSTMENTS

Decree N° 11251-MEIC-TSS of February 28, 1980.

It corresponds to the Board of Prices Adjustments to process the applications for increase in the official prices of basic consumption articles which are filed by the interested parties according to the terms of the Law of Consumers Protection. The Board has a combined membership (public institutions, boards of private organizations, workers' unions). The Board is entitled to review, periodically, the list of basic consumption products which are subjected to price controls and recommend inclusions and exclusions.

Once the Board finishes a study of an application for price variation, it will issue a report to the Ministry of Economy which is not mandatory.

5.5 MAIN ASPECTS OF LABOR AND SOCIAL LEGISLATION

The basic principles of Costa Rica Labor Law are included in the Chapter of "Social Rights and Guarantees" of our Politic Constitution. In this chapter, we will attempt to summarize the main aspects of labor and social Costa Rican legislation, which affects the private sector.

A.- Protection to Workers:

Regular working hours are 8 hours daily, 6 hours nightly and 7 hours combined. Daily working hours are those between 5 and 19 hours, and nightly working hours are those worked between 19 and 5 hours. In labor activities which are not unhealthy or dangerous, working hours may be 10 hours daily and 8 hours combined, but the total weekly working hours cannot exceed 48 hours. Work which is performed out of the indicated limits has to be compensated with a 50 % more of the regular salary which the employee earns (extraordinary hours). Managers and employees which work without immediate fiscalization and those which perform discontinued functions are not subjected to fixed schedules of work and there is no obligation of extraordinary payment. In no case the regular working hours, plus the extraordinary hours, can exceed 12 hours.

When the schedule is continued, the worker has the right to a rest of 30 minuts during it. He also has the right to a one day rest after working continously 6 days. This weekly one day rest must be compensated to employees earning a fixed monthly salary. For employees who earn an hourly salary, they are compensated only

for the hours effectively worked during the week. There are only six holydays which have to be compensated. There are nine holydays which are not compensated, but the employee may not work without compensation. After a continous work of 50 weeks, the employee has the right to a two week vacation period. The employer may establish the date in which the employee will enjoy vacations, but it must be established after 15 weeks from the expiration date of the 50 weeks.

Every worker has the right to receive a Christmas bonus, during December as a thirteenth month. If the employer has net profits higher than ₡300.000 the Christmas bonus must be of one month of salary. In the other cases, the amount corresponds to 15 %.

The employees' salaries may be freely agreed upon in the individual working contract. These wages cannot be lower than the minimum wages established by law. The determination of minimum wages is done by the National Council of Salaries, whose activity is regulated by Law N° 832 of November 4, 1949. The National Council of Salaries is a combined institution, composed by members of the government, employers and employees in a number of 3 for each group.

B.-Laboral Contracts:

Individual laboral contracts may be: of indefinite time, for a determinate work or for a fixed time period. In the last two cases, to be considered as such, it is necessary that the work performed by the employee does not constitute a permanent activity of the employer. In these cases, the term estipulated in the individual contract may not exceed of one year against the employee, except if the services performed require an special technical preparation, in which case

the term may be of five years.

In the individual labor contracts for indefinite time, either one of the parties may terminate the relationship without justified cause, giving previous notice to the other party with at least one week of anticipation after a labor relation not less than 3 nor higher than 6 months; of 15 days in a working relation which has lasted between 6 months and 1 year; and of one month, after one year of continous work. The obligation of giving notice to the other party is mandatory for the employer and for the employee and it can be ignored if one party pays to the other the equivalent to the working time.

When termination is decided by the employer without justified cause, he must compensate the employee with10 days of salary after a relation not less than 3 and not higher than 6 months; with 20 days of salary in a relation which has lasted between 6 months and one year; and with one month of salary for each year or fraction not less than 6 months. In no case, such compensation will exceed 8 months of salary.

In the labor contracts for determinate work or for fixed time period, if the termination occurs before the conclusion of the work or the time period expiration, the employee has the right to be compensated for the specific damages which he can prove and also with one day of salary for each week worked.

The first 3 months of the labor relationship are considered a proof period. Any of the parties can terminate the relationship in

that period, without compensating the other party and without being liable.

It also exists the posibility of entering into collective labor contracts, executed among one or several labor unions and one or several employers, in which both parties negotiate the individual labor contract of each of its members. It also exists the possibility of executing labor collective conventions, which consists in a contract between one or more unions and one or more employers in order to regulate specifically the terms and conditions of the labor relationship and other connected aspects. According to our Labor Code, collective conventions have higher legal force than statutes and its terms and conditions must be strictly respected.

Our Labor Code also contemplates the right of the employees to enter into a strike. A legal strike is a temporary abandonment of the labor relationship agreed and executed pacifically by a group of three or more employees with the exclusive purpose of protecting and improving their social and economic common interests. To be legally decreted, a strike must have certain requirements: a previous consiliation procedure, fiscalized by a court tribunal is needed; it must be supported by at least a 60 % of the employees; and no acts of violence against persons or property must be used. An unlawful strike is a justified cause to terminate the individual labor contract without liability for the employer and the participation of employees is punished with severe criminal sanctions.

C.- Social Charges:

Every employee must be insured against the risks of sickness,

maternity, incapacity, age and death. This insurance is offered by the Costa Rican Social Security Institution, which is a public institution in charge of rendering medical assistance and pensions for age and incapacity. The insurance is universalized in Costa Rica. The employer must contribute to this insuranse as follows: For the insurance of sickness and maternity with a 6.75 % of the employee's salary: for age, incapacity and death with a 4.75 %. The employee, on his part, must contribute to a 4 and 2.5 % respectively, that the employer is obliged to deduct from his salary and pay to the Social Security.

In addition, the employer must pay the following charges over his payroll: Social Assistance Institute, 0.5 %; National Institute of Working Education, 1 %; Comunity Development and Popular Bank, 0.5 %; and Familiar Assignations, 5 %. All these payments are destinated to different welfare items and to the Social Security in benefit of the employees.

All the workers which are exposed, due to the work performed, to professional accidents and sickness, must be insured against those risks by the employer. The primes of these insurances vary according to the dangerousness of the work, estimating, the average in a 7 % of the salary. The effective costs for the employer over the nominal salary of its employees, including vacations, Christmas bonus, unjustified contract terminations, professional risks, insurances and other social charges to public institutions may be estimated in approximately 45 % over the nominal salary. Nevertheless, it should be taken into account that normally, administrative employees, managers and other trust employees, which receive the highest salaries are not

insured against professional risks. We may conclude, then, that the estimated cost is reduced in a significant percentage.

D.- Laboral Economy Sector:

Currently, the Costa Rican Congress is discussing a Project of Law for the creation of a Laboral Economy Sector. The main purpose of such project consists in that the funds and reserves which employers have for the payment of labor indemnizations on unjustified remotions, be deposited and managed by workers, through public institutions, such as the Community Development and Popular Bank and Cooperative Promotion Institute.

According to the current labor legislation, workers indemnization is only paid to the employees in the event of an unjustified remotion on the part of the employer. With this Project of Law, the employer will be bound to pay a public institution this charge in a permanent form and not only upon unjustified remotion. In other words, the employee will be entitled to claim the indemnizations even if he is removed without justified cause.

This Project of Law has been modified several times. Nevertheless, it represents a new social charge for employers, equivalent to a 4 % on the nominal payroll until it reaches an 8.33 % of said payroll in the following years. In addition, the last project stated that employees will also be entitled to the current indemnizations, in the event that they are removed without justified cause. employers, the Laboral Economy Sector will only represent an additional charge on the payrolls without modifying the current regime of labor indemnizations.

138

5.6 RELEVANT LEGAL ASPECTS TO CONSIDER IN THE CURRENT CRISIS OF ENTERPRISES

In the current economic crisis, existing legal mechanisms are not conceived to search for an economic reactivation of companies with problems. On the contrary: there are no provisions for rational and convenient solutions according to the general interest, the company's interest, its shareholders, its employees and its creditors. A company which enters into bankruptcy in our legal system does not have any incentive to overcome its problems, due to the fact that there is excessive protection for creditors, who in the majority of the cases are interested in liquidating a company. Entrepreneurs are also accustomed to create several small corporations with very cheap assets with the purpose of not being liable of their debts.

In the last decade, the majority of corporations are anonymous societies of familiar background or closed, managed and controlled by few shareholders or just one and that are not interested in growing or diversifying activities. There are even corporations which are created only to protect an inmobiliary asset and that do not have real existence. This is caused by the lack of requirements to constitute a corporation, the important tax advantages and the limit of liability which arises from those legal forms. In our Commercial Code coexists rules destinated to the creation of closed corporations with the rules which regulate open corporations owned by multiple shareholders.

Let us mention some examples:

Article 104 of our Commerce Code requires only a minimum of two shareholders to create an anonymous society and there is no minimum capital requirement. Article 202 also establishes that the fact that an anonymous society is wholly owned by one person is not a dissolution cause.

Article 158 authorizes the General Assembly of Shareholders to be held without previous announcement, when the total of the shareholders are present. Article 138 also permits restriction to the transfer of shares with the Board of Director's approval.

The regulation of payment suspension in a bankruptcy proceding and the previous period to the suspension of payments are not planned to help the enterprise continue production or reactivating her. Instead, the main interest is to protect creditors. Any court or out of court settlement depends on the will of the creditors. What is known as "preventive agreement of creditors" is only an agreement between the debtor and the creditors whose purpose is to avoid the declaration of bankruptcy as a process, and not an agreement which tries to avoid an eventual payment suspension. The preventive agreement was conceived thinking in a civil debtor and not in a commercial debtor. Article 337 renders void any particular agreement between a creditor or a group of creditors with the bankrupt party and if this is done, creditors will loose all the rights in the bankruptcy procedure.

Article 333 states that it is necessary to declare a bankruptcy and qualify the credits in order to enter into an agreement

between the debtor and the creditors. The only collective procedure against the debtor is in the moment of payment suspension and not before. By court precedents, preventive agreements have been accepted before the declaration of bankruptcy but requiring a payment suspension from the debtor in order to approve the agreement. It would be possible, given our contractual liberty system, to adopt previous agreements between the debtor and the creditors, but with only one creditor who does not accept the agreement, everything agreed would be void if it goes against him.

It can also happen that a company is well structured but it passes through a temporary crisis. This is the case in bankruptcies arising from exchange differences. If there is no good will from the creditors, the company may be liquidated without remedy and our society does not have the legal mechanisms to prevent it. The bankruptcy procedure includes also the reinitiation of the company's activities, but it must be approved by the Creditors Meeting which is held several weeks or months after the declaration of bankruptcy. In the meanwhile, the employees of the company start in other works and the customers have new suppliers.

It is necessary to search for adequate and efficient solution when an enterprise enters into a crisis, assuming that such crisis may be overcome and that it benefits the general interest of saving a company with real possibilities of contributing to the country's economy. It will also be convenient to regulate the traditional legal forms included in the Commerce Code and also the cooperatives

and groups of corporations attending to the economic concept of enterprise and independently from the legal forms which they adopt. One of the solutions could be the consolidation of several corporations so that they be considered an economic unit, very similar to the income tax solution to the problem.

Lastly, it is convenient to indicate that any solution should take into account an additional contribution from the entrepreneur. The limit of liability to the extent of the capital paid, is the concept which motivates investment and production in a free enterprise economy. Nevertheless, the abuse in those forms not only has promoted the decapitalization of enterprises, but also the evasion of legal obligations. It has also promoted the creation of corporations with small capital, depending on public banking credit, where the owners' risk is little or nothing.

444

6. BIBLIOGRAPHY

1. ACADEMIA DE CENTROAMERICA, "Costa Rica: Una economía en crísis". San José, diciembre 1981.

2. ASOCIACION COSTARRICENSE DE HOTELERIA Y AFINES, "Hotelería: el arte de la hospitalidad". San José, Costa Rica, 1981.

3. ASAMBLEA LEGISLATIVA, "Ley de fomento a la industria de Desarrollo Rural". San José, Costa Rica, junio 1975.

4. BANCO CENTRAL DE COSTA RICA, "Análisis sobre el comportamiento de los principales productos del sector agropecuario en Costa Rica, 1979-1981". Febrero 1982.

5. " "Cifras de producción industrial 1957-1975 y 1971-1980. Junio 1981

6. " "Cifras de producción agropecuaria 1971-1980". Junio 1981.

7. " "Crédito y Cuentas Monetarias". Costa Rica, febrero 1981.

8. " "Cuentas Nacionales de Costa Rica 1957-1975 y 1971-1980". Junio 1981.

9. " "Leyes bancarias y otras conexas". Setiembre 1978.

10. " "Memoria Anual 1976, 1977, 1978".

11. " "Principales estadísticas sobre las transacciones de Costa Rica con el exterior"

12. BANCO CENTRAL DE COSTA RICA Y AUDITORIA GENERAL DE BANCOS, "Publicaciones mensuales"

13. BANCO CENTROAMERICANO DE INTEGRACION ECONOMICA, "Convenio constitutivo y reglamentos". Junio 1975.

14. BOLSA NACIONAL DE VALORES, Reglamento.

15. CAMARA DE COMERCIO, Resúmen de sus actividades.

16. CAMARA DE INDUSTRIAS DE COSTA RICA, "Directorio Industrial 1981/1982 "

443

17. CAMARA DE INDUSTRIAS DE COSTA RICA, "Encuesta Somera de Industrias", octubre 1981.

18. CAMARA DE PRODUCTORES DE GRANOS BASICOS, "Proyecto Ley de Reforma Tributaria Integral 1981. Resúmen y comentarios". Abril 1982.

19. CENADA, "El mayorista". San José, Costa Rica 1980.

20. CENTROS AGRICOLAS CANTONALES, Ley Orgánica.

21. CENTRO PARA LA PROMOCION DE LAS EXPORTACIONES E INVERSIONES, "Guía del exportador"

22. " "Manual del exportador". Volúmenes 1-2-3-4,1981.

23. CESPEDES, VICTOR HUGO, "Distribución del ingreso y consumo de algunos alimentos". San José, Costa Rica 1973.

24. CONSEJO NACIONAL DE PRODUCCION, Boletines mensuales.

25. Ley orgánica.

26. CORPORACION DE DESARROLLO, "Memoria Anual 1977,78,79,80".

27. CONSEJO ECONOMICO Y SOCIAL, NACIONES UNIDAS "La política industrial en el marco de la nueva estrategia internacional para el desarrollo". Febrero 1981.

28. CONSEJO NACIONAL SECTORIAL AGROPECUARIO, "Plan operativo sectorial agropecuario y de recursos renovables" 1982.

29. CONSEJO NACIONAL PARA LA INVESTIGACION CIENTIFICA Y TECNOLOGICA, "Estado actual y las tendencia en el campo de la política científica y tecnológica". 1981

30- " "Proyecto de instrumentos de política y planeación científica y tecnológica para Centro América y Panamá". Marzo 1981

31. COOPERATIVA AGRICOLA INDUSTRIAL VICTORIA R.L., "Informe del Consejo Administrativo y otros a la Asamblea Ordinaria de delegados". Dic. 1980.

32. COORPORACION DE ZONA FRANCA DE EXPORTACION, "Establecimiento de parques industriales y zonas francas en Moín y Caldera".

444

33. CAMARA DE REPRESENTANTES DE CASAS EXTRANJERAS, "Estatuto constitutivo y otras leyes".

34. CORPORACION PARA EL DESARROLLO AGROINDUSTRIAL COSTARRICENSE S.A., "Perfil industrial, 1981".

35. FERNANDEZ E., MAX, "Implementing Food Reform Programs in Costa Rica" The Cenada Proyect, 1980.

36. INSTITUTO ALEMAN DE DESARROLLO, "Inversión extranjera en el sector industrial de Costa Rica. Febrero 1982.

37. INSTITUTO COSTARRICENSE DE ELECTRICIDAD, "Ley constitutiva y otras disposiciones legales". Setiembre 1977.

38. INSTITUTO COSTARRICENSE DE TURISMO, Ley orgánica. Junio 1971.

39. INSTITUTO NACIONAL DE APRENDIZAJE, "Informe básico de labores". 1980.

40. INSTITUTO DE FOMENTO COOPERATIVO, "Memoria Anual" 1980.

41. INSTITUTO DE INVESTIGACIONES EN CIENCIAS ECONOMICAS, "El proyecto de edevalución y el comportamiento de las principales empresas del sector industrial". Junio 1981.

42. " "Evolución de la industria en Costa Rica 1977-1981 y sus perpectivas de 1977 a 1982" Dic. 1981.

43. " "Nuevos indicadores de la actividad industrial costarricense durante 1981". Abril 1982.

44. " "Perfil del sector pesquero en Costa Rica". Agosto, 1981.

45. " "Producción de alcohol carburante en Costa Rica: Evolución y perspectivas".

46. INSTITUTO DE TIERRAS Y COLONIZACION, Ley orgáncia y otras disposiciones.

47. LA GACETA, Ley de Creación del IDA, San José, Costa Rica. Abril 15, 1982

48. LIGA AGRICOLA E INDUSTRIAL DE LA CAÑA DE AZUCAR, Ley orgánica y sus reformas.

49. "Memoria Anual". 1980.

50. MINISTERIO DE AGRICULTURA Y GANADERIA, "Evolución 1980 y programación nacional de investigaciones agrícolas para la producción". 1981.

51. MINISTERIO DE ECONOMIA, INDUSTRIA Y COMERCIO: DIRECCION GENERAL DE ESTADISTICA, "Censo Agropecuario 1973: Regiones Agrícolas" Junio 1975.

52. MINISTERIO DE ECONOMIA, INDUSTRIA Y COMERCIO: OFICINA DE PLANIFICACION NACIONAL, "Plan nacional de desarrollo 1979-1982 "Gregorio José Ramírez". Nov. 1980.

53. MINISTERIO DE TRABAJO Y SEGURIDAD SOCIAL, "Encuesta nacional de hogares, empleo y desempleo" Costa Rica, marzo julio, nov. 1981, marzo 1982.

54. " "Encuesta nacional de hogares, empleo y desempleo" Serie de datos corregidos 1976-1980. Costa Rica, abril 1981.

55. " "Industrias Rurales: instrumentos nacional de empleo". 1975.

56. " "Indicadores de precios, salarios y empleo". Marzo 1982.

57. " "La actividad económica y su relación con los salarios 1976-1980". Abril 1982.

58. MISION ISNAR, "El sistema de investigación agropecuaria y transferencia de tecnología en Costa Rica"

59. OFICIAN DEL CAFE, "El café en cifras". 1980.

60. " "Informe anual de labores", 1980.

61. " "Leyes y reglamentos usuales sobre café", 1981.

62. OFICINA DE PLANIFICACION NACIONAL, "Desarrollo de proyectos agrícolas y agroindustriales o exportación no tradicionales en Costa Rica". Julio 1981.

63. "Diagnóstico de las instituciones del sector público que brindan apoyo al desarrollo de proyectos agricolas y agroindústriales en Costa Rica". Julio 1981.

446

64. OFICINA DE PLANIFICACION NACIONAL, "Evolución socioeconómica de Costa Rica 1950-1980". 1982.

65. "Organización y funcionamiento del sector economía, industria y comercio". Mayo 1981.

66. OFOMECO, "Memoria Anual". 1980-1981

67. PROYECTO COS81/T01, "En el marco de una estrategia tecnológica nacional". Costa Rica, 1981.

68. SISTEMA BANCARIO NACIONAL, "Reglamento de la Comisión de Coordinación Bancaria". Octubre 1979.

69. SETIMO SEMINARIO NACIONAL DE DEMOGRAFIA, "Población y empleo en Costa Rica". Agosto 1979.

70. SECRETARIA EJECUTIVA DE PLANIFICACION SECTORIAL AGROPECUARIA, "Análisis de la política crediticia y financiera del sector agropecuario". Abril 1982.

71. " "Diagnóstico agropecuario y de recursos renovables" Enero 1982.

72. " "Diagnóstico sobre infraestructura física en el sector agropecuario". Feb. 1982.

73. " "Información básica del sector agropecuario de Costa Rica". Enero 1982,

74. " "Informe anual de labores". Enero 1982.

75. " "Programa de mejoramiento de la producción e industrialización de la caña de azúcar".1980.

76. SERVICIO NACIONAL DE ELECTRICIDAD, "Proyecto Riego Arenal-Tempisque". Marzo 1982.

77. SISTEMA ECONOMICO LATINOAMERICANO, "Proyecto Sistema financiero latinoamericano para el sector turismo"

78. UNIVERSIDAD DE COSTA RICA: FACULTAD DE CIENCIAS ECONOMICAS Y ADMINISTRACION, "Impacto de la Bolsa nacional de valores en la economía nacional". Junio 1977.

79. VEGA A., CARLOS "Repercuciones de las políticas de tasas de interés en el mercado financiero costarricense", 1980.

80. VON BREYMANN, TORRES Y ASOCIADOS, "Survey of the credit supply and liquidity of the national ranking system" March 1982.

81. ZURCHER A., HARRY, Código de Comercio de Costa Rica 1981/1982.

441