

**INSTITUTIONALIZING EXPORT
AND INVESTMENT
PROMOTION ORGANIZATIONS:
THE CASE OF COSTA RICA'S C.I.N.D.E**

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SUMMARY

This essay examines the institutional development of the *Coalición Costarricense de Iniciativas de Desarrollo* (CINDE) in leading the way for Costa Rica's export-oriented growth. CINDE is an export and investment promotion organization (EIPO) that was created by the Costa Rican private sector in 1982 with support from USAID. The author argues that despite the unique contextual characteristics of Costa Rica during CINDE's development, the general lessons regarding the dynamics of successful EIPO institution-building may be broadly applicable for other countries in economic transition to an export orientation. CINDE's experience shows that the basic influences of an organization's legal framework, internal structures, technical and financial autonomy combined with goals mutually acceptable to government are the common denominators in determining successful EIPO institutionalization.

TABLE OF CONTENTS

INTRODUCTION	1
THE ENVIRONMENT FOR TRADE, INVESTMENT AND EXPORT PROMOTION	4
COSTA RICA'S CHOICES	5
THE LEGAL FRAMEWORK	7
THE MANDATE	8
THE MODELS	9
CINDE'S ORGANIZATIONAL EVOLUTION	10
FINANCING CINDE	14
ASSESSING CINDE'S ACTIVITIES AND ITS CONTRIBUTION TO ECONOMIC GROWTH	16
Foreign Investment Promotion	16
Development of Non-Traditional Exports	18
Training	22
WORKING WITH THE GOCR	23
THE TRANSITION TO SELF-SUFFICIENCY	25
Self-Sustainability: The Theoretical Effects of Definition, Measurement and Attribution	28
The Nature of the Principal-Agent Relationship and the Structure of EIPOs	29
Organizational Structure and Its Impact on Self-Sufficiency	31
LESSONS FROM A SUCCESSFUL MODEL	33
CONCLUSIONS	37
REFERENCES	39
ANNEXES	42

INTRODUCTION

This essay examines the institutional development of the *Coalición Costarricense de Iniciativas de Desarrollo* (CINDE) in leading the way for Costa Rica's export-oriented growth. CINDE, an export and investment promotion organization (EIPO)¹, was created as an association of 76 prominent local business men and women on October 29, 1982 under the "Association Law" of Costa Rica. Its management was comprised of a ten-member Board of Directors drawn from its associates. Funding for the endeavor came almost exclusively from the United States Agency for International Development (USAID), which provided institutional and programmatic support to serve a broad range of development initiatives, including nontraditional export promotion and the attraction of direct foreign investment into the country.

While the context is unique, the institutional development of CINDE is meaningful for evaluating one example of a successful, if difficult, institutionalization process for trade development organizations. Assessing CINDE's experiences may convey some important lessons regarding EIPO structure for countries in economic transition to an export orientation.

Generally, there are few examples of successful EIPOs. Donald B. Keesing and Andrew Singer, in their 1989 publication entitled *What Goes Wrong? Official Promotion and Marketing Assistance for Manufactured Exports from Developing Countries*, demonstrated by using a number of developing country cases that official export promotion organizations failed to meet

their organizational and programmatic objectives. The most important reasons for these failures were (1) inappropriate institutional structures, (2) inadequate funding, (3) confusion between regulatory and administrative roles, and (4) inflexible personnel systems. The organizations that Keesing and Singer studied were severely constrained from making substantial contributions towards export growth and investment promotion largely because of inadequacies of structure, insufficient autonomy from government and the inability to attract and maintain appropriate technical staff.

How is successful institutional development measured? While there are many dimensions and facets which one could use to define measurement and examine the processes of institutionalization, there are essentially 12 independent variables which help explain institutional effectiveness. Those variables are:

- # degree of specificity of the agency's activities
- # degree of competition faced by the agency
- # degree of geographical dispersion of the agency's activities
- # degree of political support or commitment
- # degree of *overt* political intervention
- # presence of outstanding managers
- # effectiveness in the application of management techniques
- # exogenous factors
- # result (rates of return) of the project's investment
- # degree of success of institutional development programs
- # deficit (or absence of revenue) or surplus
- # lower than average salary levels

¹In this essay, AEIPO® and Atrade development organization® are used interchangeably although the conventional lexicon defines the latter's functions more broadly than the former's. Essentially, EIPOs provide services which seek to attract foreign investment, assist foreign investors, educate exporters, transfer technology and engage in policy dialogue with the government to alleviate constraints to export and investment growth.

In a theoretical context, however, three major sets of techniques have emerged to assess institutional development. The first set of techniques is *quantitative*, and derives from mathematics and economics. Quantitative techniques explain institutional development from an algorithmic perspective but largely neglect or ignore behavior patterns in their models. The second technique is the *systems* approach. In the systems approach, social science techniques are combined with systems analysis and include tools such as manpower and organizational planning, job description and job evaluation as measurement foundations. The third set of techniques is adapted from the *social sciences* and examines the structures, procedures and management decisions of the organization with special reference to the behavioral responses of individuals and groups. This essay demonstrates CINDE's institutional evolution within the context of the social science framework.

The "state of the art" of institutional development has evolved along two main lines. At one extreme is the private-sector, industrial-financial perspective of management science and business administration. At the other is the formalistic and legalistic approach of public (development) administration. The two disciplines have concentrated on the effectiveness of institutions at the national, sectoral, or regional levels, but little has been done to organize clients or constituents at the local level and to improve the relationships between the institutions and their constituents. Second, the development administration field has concentrated on the establishment of institutions which were expected to remain

unchanged for long periods. Third, the role of politics in institutional success is treated as one more exogenous variable in management sciences. While satisfactory for assessing private sector development, it is a far too simplistic and unsatisfying explanation for understanding the institutionalization of public service organization, especially if that organization is a private organization providing a public good as in CINDE's case.²

CINDE's story is intriguing because it is distinctly different from the typical progression of EIPO institutional development. While organizational structures of EIPOs vary significantly from one country to another, no single structural pattern can be considered as the model for success. The setup adopted in individual countries, by necessity, must reflect the uniqueness of its context-defined parameters.³ A confluence of contextual circumstances, including government and private sector cooperation, large infusions of foreign assistance and innovative approaches to problem-solving, positioned CINDE to dramatically and successfully contribute to Costa Rica's export growth during the 1980s. CINDE can rightfully claim substantial credit for helping Costa Rica achieve its export and investment goals and in making a successful, if difficult, institutional transition from complete dependency to relative autonomy. It is one of the few organizations of its type to have nearly reached financial self-sufficiency⁴ while managing to avoid many mistakes incurred by similar developing country institutions.

THE ENVIRONMENT FOR

²The theories of institutionalization and subsequent discussion were adapted from Arturo Israel's book, *Institutional Development: Incentives to Performance*, Washington, DC: The World Bank, 1990, pp. 1-47.

³Jaramillo, Camilo. "The Basic Functions of a Trade Promotion Organization." *International Trade Forum*, 1992, p. 1.

⁴The concept of financial self-sufficiency is defined to mean the capacity to acquire, from whatever source (donor funding, government contributions, cost recovery, etc.) sufficient resources to maintain a

TRADE, INVESTMENT AND EXPORT PROMOTION

An important part of evaluating the motivation for CINDE's creation and its eventual success is to understand Costa Rica's macroeconomic circumstances by the early 1980s. In large measure, the economic crisis of the early 1980s was brought about by the partisan politics of the 1960s and 1970s and the inability and unwillingness of successive administrations to adopt prudential fiscal and monetary policy measures which would curtail government fiscal spending and reduce trade imbalances. The late 1960s saw a deterioration of Costa Rica's relationship with its partners in the Central American Common Market at the same time that other Central American countries were leaving. The CACM union became increasingly irrelevant. By the time José "Pepe" Figueres of the Partido Liberación Nacional (PLN) became Costa Rica's president in 1970 for the second time, liberal trade among member CACM countries had given way to protectionism, animosity and deteriorating trade balances.

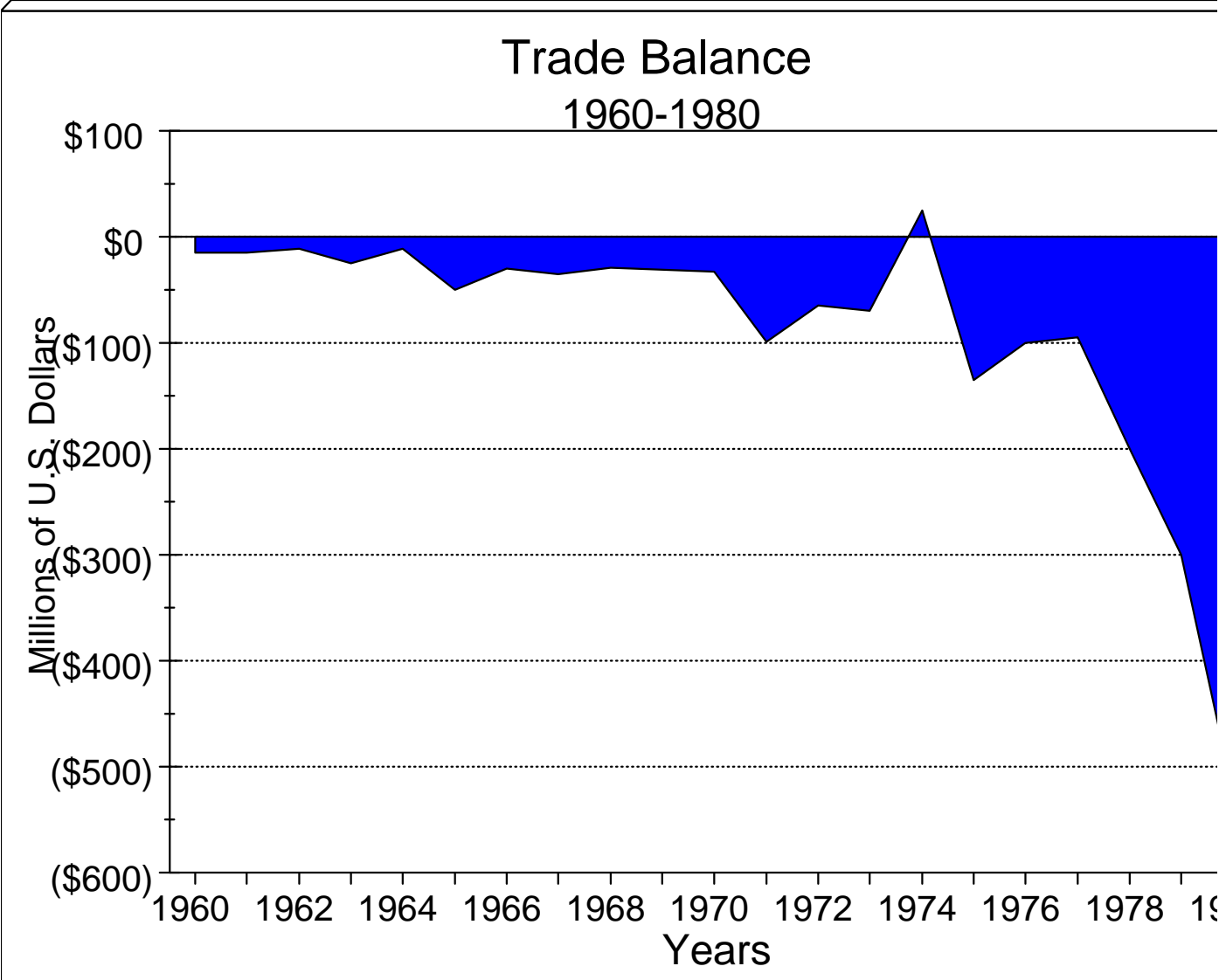
Under José Figueres' leadership, the new administration revived old, high-cost PLN programs designed to foster "public participation in the economy". Those programs consisted primarily of providing government-financed employment. At the same time, Figueres sought to limit Costa Rica's dependence on its traditional sources of export revenue, coffee and bananas, through an agricultural diversification program and by encouraging industrialization through an import substitution program.

By 1972, half-way through Figueres' term, Costa Rica's government deficit reached -4.2 percent of GDP. While government expenditures increased, so did the level of investment. By

1974, the total investment represented 27 percent of GDP. Meanwhile, real per capita GDP growth averaged 4.4 percent each year between 1970 and 1974 but was financed largely by the inflow of external debt which amounted to 31.3 percent of GDP by 1974. While real poverty did fall dramatically, the policies adopted by the Figueres government and subsequent PLN administrations would prove to be economically unsustainable.

By the time President Oduber assumed office as Figueres' successor in 1974, austerity measures had been adopted. Nonetheless, Oduber announced programs calling for land redistribution, nationalization, higher taxes and a stronger public sector with more government-financed jobs. He discounted the austerity measures which had been designed to save foreign exchange through import compression and fiscal expenditure reduction. While the external oil shock (OPEC I) contributed to a declining current account balance, it was financed by significant external borrowing which reached 41.9 percent of GDP by the time Oduber left office. Excessive government spending financed with external debt propped up per capita GDP growth from -1.4 percent in 1975 to 3 percent by 1978 when his term ended.

By 1979, the country was on the verge of economic crisis. Debt service had reached 9.8 percent of GDP, external debt had climbed to 59.5 percent of GDP and the Current Account Balance had declined to an historical low of -13.8 percent of GDP. Until 1978, favorable terms of trade and external borrowing postponed the inevitable restructuring. Real GDP growth began to edge down and inflation began to increase sharply, going from less than 3 percent in 1971 to nearly 19 percent in 1980. The worst was yet to come.



The election of President Monge signaled increased awareness of the importance of a trade development strategy. While Monge's campaign rhetoric had promised to "return the people to the land", indicating a need to focus on agricultural development and increased production, it also signaled a turn to an outwardly oriented economy. The economic crisis in which the country found itself by the beginning of 1981 fostered a realization that an inwardly-looking policy environment did little to protect the economy from external forces and an increasingly integrated world economic order. The recognition of the inability to sustain Import Substitution and Industrialization Policy, combined with the difficulties of the CACM, prompted the Monge government to focus on

agricultural diversification with an export-oriented focus to third markets.

By 1983, the GOOCR had announced its support for non-traditional agricultural production for export and eliminated all taxes levied on agricultural and manufactured non-traditional exports. A unified exchange rate was also adopted and, in 1985, a crawling peg regime was begun. The GOOCR also created the "export contract" to encourage foreign investment and export development which included a *Certificado Abono de Tributación*, or value-added tax rebate program for non-traditional exports.

Trade with the U.S. grew as Costa Rica's exports increased. The Caribbean Basin Initiative (CBI), announced in 1981 under the Reagan Administration and adopted by the U.S. Congress in 1983, helped create an environment which encouraged trade and investment with Caribbean and Central American countries by offering duty-free access to U.S. markets for non-traditional exports.⁵ By the end of 1982, the year in which CINDE was formed, only US \$273 million (31.4 percent) of Costa Rica's total exports of US \$870.4 million went to the United States. By comparison, at the end of 1992, US \$730 million was being shipped to the United States alone on an export base of nearly US \$1.9 billion.⁶

COSTA RICA'S CHOICES

The principal structures under which EIPOs have been established are public institutions or some form of private incorporation.⁷ The EIPOs

that have been established as a public agency have been numerous and fall into two basic categories. First are those entities which are fully structured as a section, division or directorate within a ministry of trade or commerce or industry. Many EIPOs begin as a section of the ministry and then gain some additional power and become departments or directorates. The principal disadvantage with this type of EIPO structure is that its autonomy and operational flexibility are often curtailed by restricting rapid access to financial and human resources and by forcing upon it standardized public service procedures which hamper an EIPO's responsiveness in fulfilling its mandate. One major advantage, however, is the ease with which it can be created; a simple decree by the minister is usually sufficient.

The second type of public EIPO structure is an "autonomous" or "semiautonomous" institution. This is the most frequently used form for establishing trade development organizations. Sometimes referred to as "councils" or "commissions", the autonomous or semiautonomous legal basis provides relative authority and some flexibility to entities while allowing the government to maintain its public service standards. The foremost disadvantage in this type of structure, however, is the confusion which often arises when the tasks of policy-making combine with implementing export and investment promotion functions. In many cases, institutions tend to overemphasize the former function to the detriment of the latter. Ideally, autonomous organizations should be free to appoint and manage personnel according to their particular professional requirements

⁵In fact, the response to the CBI was largely a result of promotion, which increased regional awareness of the Reagan Administration's interest in developing U.S. trade with the region.

⁶From CENPRO's October 1993 quarterly statistics for traditional, non-traditional exports, free trade zone exports and tourism and from AID's *Selected Economic and Social Data for Latin America and the Caribbean*. The figures cited *exclude* tourism exports. If tourism exports are included, Costa Rica's export base increases to US \$2.3 billion for 1992.

⁷This typology and discussion were adapted from Camilo Jaramillo, *Trade Promotion Organizations: A*

rather than civil service regulations but only a few organizations actually possess the necessary leeway to act.

The second major type of institutional structure is some form of private structure. In some cases, private initiatives formed through exporters' associations or chambers of commerce have carried out promotional activities. In other cases, associations have been formed with the responsibilities for export and investment promotion divested to the private entity. This was CINDE's case.

In a move toward an outwardly-oriented economic structure, one critical decision facing the Government of Costa Rica (GOCR) in 1983 was whether or not CINDE's responsibilities would supplant the activities undertaken by Costa Rica's official *Centro de la Promoción de Exportaciones y Inversiones* (Center for the Promotion of Exports and Investments, CENPRO). CENPRO was created by law in 1968 as the government's official export and investment promotion agency. As an autonomous agency functioning under the Ministry of Foreign Trade, it engaged in a broad range of trade development activities and established overseas promotional offices but was staffed with government employees and subjected to civil service regulations. As a public entity, its personnel systems were

characteristically unresponsive and inflexible. Pressures to respond to political and bureaucratic criteria dominated its behavior and diminished its organizational capacity to adhere to technical guidelines.⁸ By the early 1980s, it was clear that CENPRO had neither the human, technical or institutional capacities to accomplish its goals of export development and investment promotion which were the principal components of the GOCR's outward orientation.

CENPRO's limited budget proved to be just one of the serious constraints to achieving its broad mandate to encourage investment and Costa Rican exports. Resources were scarce, technical ability was poor and CENPRO's institutional framework was inadequate for managing the difficult challenges of an increasingly complex trade and investment regime. At the same time, U.S. Government policies for Latin America were emphasizing a "private sector" approach to problem solving in lieu of traditional government-controlled solutions.⁹ CENPRO had become an unresponsive and bureaucratic entity, organized in a different time for a limited purpose and characterized by its cumbersome processes, ineffective administration and incompetent technical management of trade and investment flows between Costa Rica and the rest of the world. In an atmosphere of stabilization and the outwardly-oriented economic restructuring of the early 1980s, the GOCR's planning for CINDE began with an understanding of the need to compensate for

Variety of Approaches. International Trade Forum, 1992.

⁸As Keesing and Singer point out (in "How Support Services can Expand Manufactured Exports," Washington, DC: World Bank Working Paper 544, 1990) tasks relating to export marketing may well deserve subsidies or direct support when they capture for the country externalities that private firms cannot. Those services include publishing and disseminating trade statistics, information useful to exporters which are not readily available about markets abroad, and arranging for exporters to participate in trade fairs abroad. It was not until 1990 that CINDE and CENPRO agreed formally to divide responsibilities which left many of the responsibilities cited above to CENPRO, especially trade show support and trade statistic dissemination.

⁹The Caribbean Basin Initiative (CBI) was announced by the Reagan administration in 1981 and passed by the U.S. Congress in 1983. It provided incentives for direct U.S. investment into the region such as tariff reductions and tax write-offs for U.S. businesses conducting seminars and conferences in the region, *inter alia*.

CENPRO's inadequacies in fulfilling its mandate to lead Costa Rica's move toward an export driven economy.

THE LEGAL FRAMEWORK

The GOOCR and USAID selected a private sector framework for CINDE's design. The choice of a private association for CINDE's legal structure was, perhaps, a critically important element to its institutional success. The vast majority of bureaucratic, government-managed organizations had failed to achieve their purposes as numerous studies have empirically demonstrated.¹⁰ The opportunity to construct a new model appealed to USAID officials who were aggressively pursuing private sector oriented policies. Anxious to recover from the economic trauma of the early 1980s, the GOOCR readily accepted a private sector EIPO structure with hopes of being able to take advantage of new trade expansion opportunities enacted by the Caribbean Basin Initiative. Similarly, they held expectations that a private sector CINDE would succeed where a bureaucratic CENPRO had failed. The issue confronting them was the *type* of private institution to create.

Costa Rica's laws allowed for three basic types of private business structures: incorporation, foundation and association. A legal "incorporation" in Costa Rica refers principally to profit-seeking organizations (*sociedades anónimas*). In the case of CINDE, a corporate structure was viewed as an inappropriate framework which would distort the organization's purpose and motives. The GOOCR viewed CINDE as an organization carrying out functions critical to achieving the country's development objective of export and investment

promotion. Endowing it with a corporation status would fail to provide the appropriate institutional incentives to accomplish its mandate since the beneficial social returns would be high but the private returns would be low.

While Costa Rican foundations were "nonprofit", tax-exempt organizations, the country's "Foundation Law" was excessively rigid. It prevented agile responses to intra-organizational changes which active and effective EIPOs require. For example, any change to a foundation's bylaws or charter, no matter how minor, required the dissolution of the original foundation. A new foundation would then have to be reconstituted incorporating the new changes; a time-consuming and expensive procedure. Additionally, Costa Rica's foundations were legally obligated to have government participation in determining the organization's objectives, its policies and directing its expenditures. The central government and the municipality in which a foundation is registered are legally required to appoint two of the five foundation directors. Yet the basic rationale for creating a private institution rested on the intention to attract private sector representation and to encourage broad participation by numerous business groups in its activities. Thus the foundation model was also rejected as an appropriate framework. USAID officers were concerned about the legal restrictions placed on the number of members permitted on the Board of Directors and the GOOCR's authority over two positions. Preserving the technical integrity of the organization and assuring wide, private sector representation were USAID goals upon which its assistance was conditioned. Excessive GOOCR influence over operational management

¹⁰See Keesing and Singer, "Development Assistance Gone Wrong: Failures in Services to Promote and Support Manufactured Exports," *Finance and Development*, March 1992 (also World Bank Working Paper 543). Also see Steven Graubart and Elizabeth De Vega, IPAC, Inc., conclusions of primary and secondary research on EIPOs through 1989.

would limit the ability to technically insulate CINDE from external political pressures and constrain broad-based private representation. USAID and the GOCR determined, finally, that the closest acceptable legal framework was an *association*. Under the law, a Costa Rican association could establish broad representation: an "assembly" of owners. Further, unlike foundations which were required to have government participants assigned to their boards, associations were free to choose the number of board directors and from where they came. At the same time, associations could maintain many positive features of a corporation (i.e., the issuance of ownership shares) but could combine them with the advantages of a foundation's nontax status.¹¹ In January 1984, after CINDE had been established legally as an association, USAID provided it with the first funding tranche valued at US \$11.6 million.

THE MANDATE

CINDE's statutes were broadly written. Generalized statements regarding "development initiatives" and references to overall development goals were carefully crafted into the text to provide CINDE with a flexible yet prudent mandate in which it could assist in redirecting the country's move towards an export-oriented economy. The charter's language also emphasized CINDE's role in social and economic development. It purposely left open the much more difficult technical issues of precisely what services CINDE would provide or how its resources would be allocated to meet general social and economic development goals.

Specifically, CINDE's statutes defined its objectives in Article 3. Five objectives were

specified. The first required CINDE to "contribute to the fundamental civic values that characterize Costa Rica's society, such as liberty, democracy, the respect for institutions and laws, justice and peace." The second emphasized "supporting the effective application of the concepts of responsibility and social justice, as important elements within a realistic scheme of national development." The third objective required CINDE to "assist in economic and social development for the country's general welfare while strengthening institutions, productive and private entities, and developing exports." The fourth objective required "cooperation with the formation of a favorable environment to attract investment for the development of private enterprise." The final objective asked CINDE to "contribute to the strengthening and restructuring of productive national entities so they can acquire the necessary potential to effectively compete with similar entities in other countries, while improving their knowledge, technology, managerial and technical capacities, efficiency and productivity."¹²

The charter was silent about CINDE's responsibilities (*vis-à-vis* the GOCR or CENPRO's role) for achieving specific objectives in the move to an export-driven economy. The emphasis on private participation in CINDE, however, was clear and the majority of articles established checks and balances for administering the organization in accordance with Costa Rica's association law without legislating government involvement.

THE MODELS

The main issue to be decided following the establishment of its legal framework was the nature and extent of CINDE's internal

¹¹Organizations receiving USAID donor assistance are free from all taxes under terms of the 1962 bilateral Treaty for Technical and Economic Cooperation.

¹²*Estatutos de CINDE*, October 19, 1982, pp. 2-3.

organization. Given its broad mandate to promote social and economic development, its directors, USAID and the GOCR reviewed the structural options cognizant of the range of services CINDE was expected to provide. Typically, EIPOs are grouped into three categories: transmitter, facilitator and promoter.¹³ Services range from the broadest and least in-depth type of service -- transmission of information -- to the most comprehensive and expensive form of service -- promotion of investment and exports.

"Transmitter" organizations usually focus on developing and communicating market information by creating databases and answering a range of general questions for investors and exporters. Transmitter services are general and can apply to virtually all sectors of the economy. They emphasize policy development and research, databases and market research across the whole range of sectors to establish and disseminate basic information concerning the countries' investment environment and export opportunities.

"Facilitator" organizations establish multisectoral and general investment and export promotion services, such as campaigns to promote products through trade shows and investment missions, on-site investment services, general training assistance, producer and buyer travel assistance, and investor search services. They provide services to clients at a *discrete point* in the marketing or production cycles. While a transmitter organization might, for example, prepare and distribute brochures advertising a trade show, a facilitator organization might also provide logistical support for companies' attendance.

Conversely, "promoter" organizations provide *firm-specific technical assistance* and brokering services to a limited number of producers in a limited number of sectors. Promoter services are *in-depth* and attend to production and marketing needs for a narrow band of enterprises in specified sectors. They are considered "full-service" organizations which often establish overseas promotion offices to assist in attracting new investments and sales leads for domestic exporters.

In light of the emphasis to increase investment, a full-service "promoter" organization was considered the most appropriate model. CINDE's choice as a "promoter" organization was the result of (1) the high expectations placed on it by the GOCR to lead Costa Rica's export and investment drive, (2) the need to accommodate various private interest groups and, most significantly, (3) the level of resources it had acquired from USAID and which had been "promised" for later years. The decision was also largely influenced by the successful experience of the Irish Promotion Agency¹⁴ and its Industrial Development Authority's attraction of foreign investment.

The Irish Promotion Agency model provided a beginning framework upon which CINDE's original organizational design was based and was brought to the attention of management by an USAID-contracted consultant, Toni Shiels, who had considerable experience in establishing and managing Ireland's CINDE-equivalent organization. That model emphasized aggressive promoter activities, overseas operations and identifying and "cold-calling" potential investors. Once the decision to

¹³This typology was created by the Department Economics Group of Louis Berger International, Inc., in an evaluation for the Agency for International Development entitled *Promoting Trade and Investment in Constrained Environments: A.I.D. Experience in Latin America and the Caribbean*. Washington DC: A.I.D. Evaluation Special Study No. 69, 1990.

¹⁴Also known as *Coras Trachtala (CTT)*.

establish a promoter model had been made by the Board of Directors in consultation with the Ministry of Foreign Trade, CENPRO and USAID, CINDE's internal structure took shape.

CINDE'S ORGANIZATIONAL EVOLUTION

As a full-service promoter agency, CINDE got off to a slow start. Its founding members and directors were all private Costa Rican citizens chosen for their prominence in their fields: academics, entrepreneurs and professionals. As CINDE's 1983-84 annual report stated:

[The founding members and director's] main motivation was to create an organization which was neither a chamber nor a labor union nor a businessman's association, nor a professional college, nor a club for serving the community...As CINDE is made up of citizens from different levels of society and many walks of life it neither represents nor favors any one in particular. As it involves people of different democratic political ideologies it does not attempt to proselytize or take a dogmatic attitude... [CINDE's] task is to back specific programs and projects which, in the short-term, can be translated into more favorable conditions for investment, production and greater well-being for all sectors of society.¹⁵

The decision to be a "promoter" organization

defined CINDE's internal structure from the beginning but it was understood that it would take time to build the necessary institutional capacity to internalize the functions of a full-service organization. CINDE's, therefore, relied on private voluntary organizations as the chief vehicle for project implementation and began its activities with three main areas of operation: Programs with Voluntary Organizations (OPV); the Program for Promotion, Investments and Exports (PIE) and, the Program for Communication and Public Awareness (MC).

In order to fulfill its social and economic mandates, CINDE supported the work of OPVs largely in training small business owners, craftsmen, cooperative members, workers, labor organization members, and solidarity¹⁶ association members. The second main sphere of CINDE's activities was the program for production, investment, and exports (PIE). While the basic objective and emphasis of the OPV activities were social, the thrust of PIE's programs was to strengthen and improve the country's economic structure. The link between the two programs was the attention and support of small, medium and large-sized "productive units" to make them more efficient. PIE's activities were also managed by voluntary private chambers and institutions such as the Chamber of Industries, which was comprised of some 5,000 members in businesses of all types and sizes. Finally, CINDE's Communication and Public Awareness Programs aimed at educating the public about the need for economic development, social justice and the preservation of democracy and the mechanisms through which they would occur. A fundamental goal of this set of programs was to

¹⁵*CINDE--Two Years of Achievement, 1983-1984*. San Jose: CINDE. January 1985, p.1.

¹⁶Solidarity Associations are legally empowered employer-employee associations which are permitted under Costa Rica's Solidarity Laws to provide financial services to members on a preferential basis. They have grown to be extremely popular among both employers and employees, much to the chagrin and vocal objections of organized labor groups which have rapidly lost credibility and have come to be associated with communist ideology.

favorably impact public opinion to support policy options which were favorable to increasing private investment and developing exports. CINDE made a priority of this program to encourage and strengthen the nation's image as a location for investment, tourism and business potential with as few obstacles as possible.

By the end of its first year of operation (1983), CINDE had provided funding to several OPVs, sponsored technical seminars on the problems of exporting, organized the visit of consultants to advise the GOCR on the adoption of favorable policies for export development and investment attraction, and established a comprehensive action plan to take advantage of the recently passed Caribbean Basin Initiative. CINDE shifted its focus to promoting foreign investments after its initial broad approach (export and investment promotion, general lobbying, studies, training etc.) Proved less than sufficient. By 1985, CINDE had completely restructured its programs. Since domestic firms were not yet ready to compete in export markets, a *new* foreign investment promotion program (PIE) tried instead to identify and contact individual foreign companies that might be interested in investing in Costa Rica. Foreign offices were established in the U.S., Europe and eventually in the Far East. The results were astonishingly successful.¹⁷ A USAID evaluation noted that the A project demonstrates the effectiveness of developing a targeted investment package... managers effectively reformulated their strategy to better match project promotional effects with the competitive advantages resulting from changes in the policy and productive structure environment.¹⁸

CINDE was finding its way as a new

organization and its operational structure began to expand as a result. By the end of 1985, CINDE had successfully integrated three new project activities within the framework of its programs: an agricultural project, a training project and an institutional strengthening Component to under its three main program categories. The Agricultural Project (CAAP) completed numerous supporting studies and diagnostics for resolving technical production problems, marketing obstacles and transportation bottlenecks in the export of non-traditional agricultural products. The Training Project (PROCAP) organized 89 courses and seminars and trained 2,652 people from small businesses, financial institutions, universities, and public institutions in technical issues. They also granted 92 full scholarships for short-term training in technical areas in the country and provided 5 scholarships to U.S. universities. To help institutionalization, CINDE provided assistance to 15 different OPVs ranging from women's credit organizations to regional development organizations to small business assistance groups.

In April 1986, the founding Executive Director of CINDE, Fernando Naranjo Villalobos, left to become Minister of Finance under the Arias Administration. He was replaced by Federico Vargas Peralta. Under Peralta's watch, CINDE began to drift, losing sight of its original mandate. During 1986, on advice from USAID,¹⁹ CINDE divested itself of the OPV programs creating a separate, independent umbrella institution, ACORDE, to administer credit assistance to Costa Rica's private voluntary organizations. By June 1989, amidst growing dissatisfaction with CINDE's leadership, an increasingly fragmented internal structure and a change in government from the Arias Administration (PLN party) to the Calderón Administration (PUSC party),

¹⁷See Annex 3 for CINDE's operational results.

¹⁸Louis Berger International. *AID Special Study No. 69*, 1990.

¹⁹See *CINDE, 1986 Memoria*, p. 16.

CINDE's Board of Director recruited a new Executive Director, Carlos Eduardo Robert Góngora. Carlos Robert had managed one of Costa Rica's largest and most successful businesses, Dos Pinos, a huge private cooperative enterprise producing dairy products for local consumption and export. He was a respected, although not a particularly prominent, member of the PUSC party who brought with him a turgid management style but a perceptive vision. It was Carlos Eduardo Robert's assessment of the new environmental reality and his vision of a new internal structure which provoked CINDE to take seriously its transition to a financially sustainable institution. However, under his management the organization nearly collapsed.

During Carlos Eduardo Robert's tenure (July 1, 1989 through November 15, 1991) CINDE matured as an organization, understood its new mandate and began to adapt to the shifting environment. The process of maturation, however, was nearly fatal. CINDE was staffed with young, bright professionals who were used to commanding abundant resources in an expanding organization and accustomed to operating under the lenient (some would say "detached") management of Federico Vargas Peralta. The appointment of Carlos Eduardo Robert as the Executive Director was a dramatic turnaround which rapidly became known as the "reign of terror" by CINDE's staff.

The first change introduced by the new

Executive Director affected the divisions within CINDE: Administration was combined with Finance and Internal Audits, the Program for Communication and Public Awareness was dramatically reduced in scope and funding and changed to a "unit" of research and dialogue, and CAAP (changed to Agricultural Division), PIE (changed to Marketing) and PROCAP (changed to Industrial Division which assumed PROCAP's training activities) were provided with more organizational authority and operational support. At the same time, Carlos Robert acquired a new location for CINDE, making a wise financial investment to assure it of permanent, rent-free facilities in a more suitable location.

Carlos Robert's authoritarian style was viewed as "undemocratic" by the young professional staff and incited a number of resignations from some of CINDE's most talented employees. Others were offered the opportunity to resign or to be fired.²⁰ While the realities of ever declining budgets forced retrenchment, Carlos Eduardo Robert's management of the process contributed to an atmosphere of mistrust, sapped motivation, and pushed out some of CINDE's brightest people. The erosion of CINDE's foundation finally forced A.I.D. to act to provoke the resignation of Carlos Eduardo Robert²¹. In November 1991, following the involvement of President Calderón, U.S. Ambassador Luis Guinot and other prominent individuals, the CINDE Board of Directors, led by Luis Gamboa²² requested Carlos Eduardo

²⁰These included the Director of PIE, Rodrigo Ortiz, who had managed arguably one of the most successful promotion campaigns the country had ever witnessed and Clara Zomer, the talented and successful manager of CINDE's training activities (PROCAP) who resigned in frustration in March 1990 just nine months after Carlos Robert assumed the Executive Director's position.

²¹See "Renunció gerente de CINDE," *La Nación*, September 25, 1991, for local press accounting of the "resignation" and an editorial in the same edition by Carlos E. Robert, "CINDE: sólida y eficaz". Also A.I.D. internal "Sequencing of Events" memorandum from Kenneth A. Lanza to Ambassador Luis Guinot, September 24, 1991.

²²Luis Gamboa, an industrial engineer elected to the Presidency of CINDE's Board in 1991, was also President and CEO of CONAIR Corporation's manufacturing facility located in Cartago Free Trade Zone.

Robert's resignation. After consultation and recommendation by AID, CINDE's Board of Directors agreed that Ernesto Rohrmoser, who had been a member of the CINDE Board of Directors in prior years and who brought an effective, more mature management style, would oversee CINDE temporarily until a permanent Executive Director was found.

Ernesto Rohrmoser managed CINDE from November 16, 1991 through June 30, 1992. During his brief tenure, he agreed to an A.I.D.-generated request to undertake a comprehensive strategic plan which would provide restructuring recommendations to move CINDE toward financial self-sufficiency. A.I.D. agreed to finance the study, which was completed in October 1992²³ after Rohrmoser had departed, but its recommendations were embraced by the new Executive Director and by CINDE's Board of Directors. It was the blueprint which was to form the structure of the new CINDE.²⁴

On July 7, 1992, Oscar Cabada Corvisier assumed the Executive Director's position. He had been managing the government-run CENPRO for the previous two years and had become well-versed in the problems of restructuring the export and investment promotion regime. AID had suggested Oscar Cabada as a candidate for consideration to CINDE's Board President to replace Ernesto Rohrmoser. A competent man in his early thirties who was known for his pragmatic if sometimes impetuous behavior, Oscar Cabada reinstilled a sense of confidence and direction to the organization. The downsizing of CINDE continued, but this time under a more respected and "modern" manager.

By the time Oscar Cabada assumed control of CINDE, the Private Agricultural and Agribusiness Council (CAAP) Division, the Industrial Development Program and the Human Resources and Training Division (PROCAP), and the Marketing Division (PIE) were significantly downscaled in terms of human and financial resources but became effective organizational divisions within CINDE.²⁵

By this time, CINDE had been recognized as the source of solid policy advice in the field of trade development by the Calderón Administration. The government's reliance on CINDE's advice for policy development, especially through the Minister of Trade, Roberto Rojas,²⁶ began to influence investment and trade policy outcomes. CINDE's department of research and dialogue had been all but disbanded during Carlos Eduardo Robert's leadership, so the task of lobbying fell to the Executive Director and the members of the Board of Directors. Under Luis Gamboa's leadership and with the encouragement of A.I.D. and Minister Rojas, CINDE took an active role in pursuing policy dialogue with the government's economic team and began to advocate for reforms in a public setting. The role as an independent policy advisor to the GOCR was perhaps CINDE's most important contribution to Costa Rica's development during the 1991-1993 period, an important time frame for *apertura* or economic liberalization of the trade and investment regime. By 1991, CINDE had organized itself into operating divisions consisting of the Marketing Department (foreign investment promotion), the Agriculture Division (technical assistance to nontraditional agriculture firms),

²³The study was undertaken by a team from the InterAmericas Group, Miami, Florida under an A.I.D. "Exitos" contract.

²⁴See Annex 1 for a list of CINDE Executive Directors and their tenures.

²⁵See Annex 4 for a historical head-count comparison.

²⁶Roberto Rojas was appointed as the Minister of Trade during Calderón's administration in the fall of 1990 and took an active interest in CINDE. In addition to his responsibilities as Minister of Commerce, he

the Industrial Division (training programs, firm-level assistance for export industries) and the General Management Division (which held the Executive Director, planning, and lobbying functions as well as overall management support services).

FINANCING CINDE

Many of CINDE's activities were funded by USAID as a separate "project" and its financing (either directly or indirectly) became CINDE's principal source of funds. While USAID tracked each activity as separate to accommodate U.S. Government project accounting practices, CINDE's central management and USAID project officers assured budgetary and programmatic cohesion. USAID-generated local currency derived from Economic Support Funds (ESF), which flowed through the central government channels, was used to meet CINDE's overhead expenses. These *counterpart funds* represented the GOCCR's "commitment" to CINDE and fulfilled the conditionality which required *pari passu* contributions by the government for USAID's continued support. At the same time, additional U.S. Dollar Development Assistance grants were provided for specific projects by USAID *directly* to CINDE without passing through GOCCR channels. Thus, financing CINDE's institutional development and program needs was accommodated and the perception of GOCCR financial commitment was maintained.

A.I.D. signed an initial agreement called an "institutional grant" with CINDE in October 1982 which donated the colón equivalent of US \$11.6 million.²⁷ Documents from this period

state that

[t]he destination of these funds is regulated by the aims of both the A.I.D. and CINDE and they are subject to strict accounting controls. The Central Bank of Costa Rica was officially informed of the agreement with A.I.D., and CINDE on its own initiative, send half-yearly reports of its activities to the same.

Although not stated expressly in the agreement [with A.I.D.], CINDE adopted the policy of channeling the funds exclusively into the financing of programs and pays its own administrative expenses with part of the interest on the donation.²⁸

By the end of 1984, A.I.D. had signed agreements with CINDE granting an additional US \$9.68 million in colón equivalent from grants provided through the ESF agreement with the GOCCR. These "host country-owned local currencies" became the backbone of CINDE's financing.

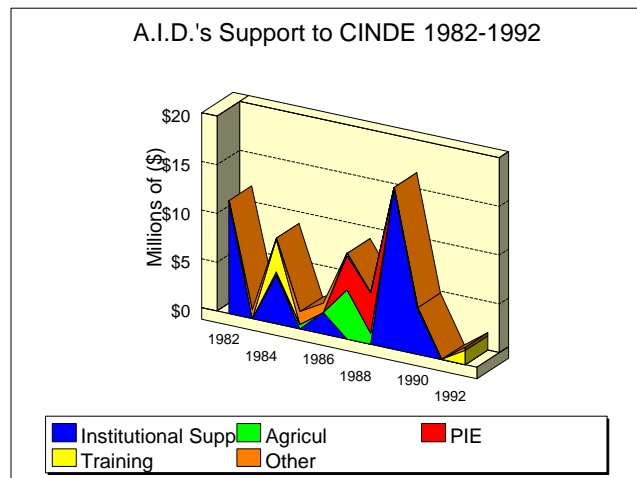
As early as January 1984, A.I.D. was planning for CINDE's future self-sufficiency. One grant to CINDE provided the financing to create the Private Investment Corporation (P.I.C.) a private sector financing entity (*financiera*) established specifically to assist in capitalizing the development and expansion of non-traditional exports from Costa Rica. In August 1984, A.I.D. donated to CINDE an additional US \$5 million²⁹ to purchase the majority of the P.I.C.'s stock--51 percent.

assumed control of the Ministry of the Economy in May 1993.

²⁷Project number 515-0186, *CINDE Funding Summary - 1982-1992*, San José: USAID, 1993.

²⁸*CINDE, Two Years of Achievement*. San José: CINDE, 1984.

²⁹This was a creative and complex scheme. A.I.D. provided the local currency equivalent of US \$5 million in ESF colones to COFISA through the Central Bank, an A.I.D. established Development Bank which was attempting to emerge from bankruptcy and required assistance in recapitalizing its local



A.I.D.'s purpose in providing the grant was to give CINDE a source of income which the P.I.C. dividends were expected to generate.³¹ During that same year, USAID provided additional funding to pay for CINDE's "public awareness coordinator", and for the sponsorship of an agribusiness workshop and the establishment of a training project (PROCAP 515-0212).

In 1985, grants funds were provided to initial the Agriculture Program, CAAP, and in 1986 A.I.D. funds were passed through CINDE's budget to finance the operations of the Ministry of Exports.³² During those two years, USAID granted an additional US \$2.4 million to CINDE. In 1987 and 1988, CINDE established a new project, "Non-Traditional Agriculture Exports", CAAP received further funding and the Promotion, Investment and Export (PIE)

currency accounts. In exchange, COFISA provided financing for the dollars required to purchase P.I.C.'s shares and managed the purchase on behalf of CINDE for a management fee plus interest on the dollar financing. As condition for the exchange, A.I.D. also agreed with COFISA to "jointly program" the proceeds from the interest received by COFISA for micro and small business development in Costa Rica. See *AID-CINDE-PIC Trust Agreement*, San José: USAID, pp. 8-84.

³⁰CINDE held the majority shares in P.I.C. but, in accordance to the P.I.C. bylaws established with A.I.D. approval, institutions were limited to a 3 percent voting share. The purpose of the restriction was to assure broad-based private sector participation. Therefore, although CINDE owned 51 percent of the outstanding P.I.C. shares, only 3 percent were "Class A" voting shares.

³¹In fact, P.I.C. dividends have provided an annual U.S. dollar income to CINDE which has reached \$250,000 in some years.

³²See *Memorandum of Understanding--No. 2*, USAID/San José and the GOCCR, 515-0194A, January 1,

program began to receive support. In those two years, A.I.D. provided US \$14.06 million in equivalent colons. During 1989 and 1990, further institutional grants were given to CINDE, and PROCAP received add-on funding, as did PIE. In 1991 and 1992, CINDE received further donations valued at US \$5.7 million. Between October 1982 and December 1992, USAID provided US \$63.36 million to CINDE's efforts either directly to the institution or through the GOOCR with ESF-generated local currency.

ASSESSING CINDE'S ACTIVITIES AND ITS CONTRIBUTION TO ECONOMIC GROWTH

Foreign Investment Promotion

Although initially the strategic decision was made to evolve into a promoter organization based upon the Irish model, CINDE began its foreign investment marketing program in a "facilitator" mode. For its first two years, the marketing of foreign investment was undertaken on the assumption that Costa Rica had been identified already as a possible investment opportunity by foreign multinationals. It was not until the summer of 1985 that the foreign investment program actively became a "promoter" organization. The five year plan for 1986-1990 called for "...achieving the project goal [of investment promotion] by efficiently using [CINDE's] resources to target, approach and bring to Costa Rica foreign investment, taking advantage of the Caribbean Basin Initiative, and of the incentives and special conditions which Costa Rica has to offer the

foreign investor".³³ The program began to identify Costa Rica's assets and liabilities in a more organized fashion, and identified offshore manufacturing companies which would be attracted to the comparative advantages offered by Costa Rica's legal and economic environment. The program began to establish an international network to support "cold calls" on foreign companies through five overseas CINDE offices.

Two foreign investment goals were clearly defined: increasing foreign investment and generating manufacturing employment. CINDE's five-year aggregate targets were to (1) make 5,000 presentations to potential foreign investors, (2) conduct or assist in 300-375 site visits, (3) generate 15,000-18,750 full time equivalent jobs, (4) close 75-100 new investments for a total of between \$132 million and \$165 million, and (5) generate incremental export sales of between \$185 million and \$230 million.³⁴ An incentive program for its sales force was designed to motivate the staff. Sales efforts focused on attracting investments under three separate legal regimes which CINDE had helped to draft and had lobbied Costa Rica's Congress for passage. Those legal regimes included: (1) a free trade zone or export processing zone law, (2) a "temporary admissions" regime, which provided incentives to drawback industries from the U.S. and, (3) export contracts which provided similar protection and incentives as a free trade zone but which permitted production facilities to be established anywhere in the country.³⁵

Direct foreign investment in Costa Rica began to climb. In 1986, direct foreign investment was only \$18.97 million. In 1991 alone, CINDE attracted over \$120 million in direct foreign

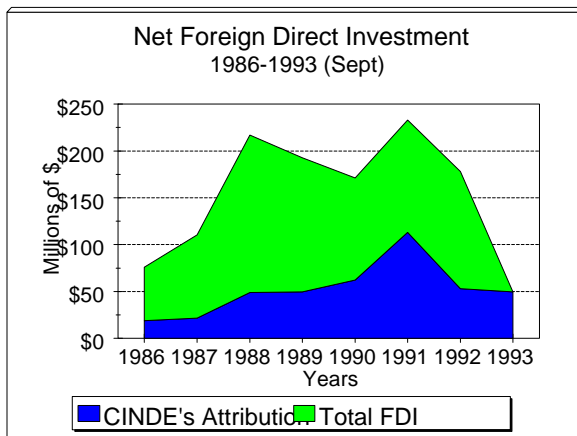
1986.

³³*Program for Foreign Investment 1986-1990*, San José: CINDE, 1985, p. 13.

³⁴Bell, *Evaluation of CINDE's Progress Towards the Attainment of Its Objectives and Long Term Goals*, May 1988, p. 8.

³⁵A.I.D., *Special Study No. 69*, May 1990, pp. 24-26.

investment, largely from international (mostly Spanish) hotel developers who had been encouraged by CINDE's advocacy and the country's aggressive ecotourism activities. By September 1993, direct investment had reached \$49.6 million for that year. Between 1986 and September 1993, CINDE's program had attracted \$417.7 million into Costa Rica, well exceeding its original five year plan projections. CINDE's credibility was enhanced by its private-sector operational framework. The rate



of investment into Costa Rica was largely a result of CINDE's technical competence, its credibility and its success in lobbying for legal and regulatory reforms which helped set the stage for investment. Just as important, however, was CINDE's role in bringing those changes to the attention of companies with an interest in offshore investment.

CINDE's claims of attracting investment seemed excessive to many observers and prompted objective evaluation. The confluence of policy changes, CBI incentives, Costa Rica's political stability, and other exogenous variables were clearly factors in attracting investment. However, in the final analysis, the fact that direct foreign investment decisions were principally the result of CINDE's efforts had to be demonstrated if it was to justify continued investment promotion expenditures.

In 1990, USAID commissioned Price-Waterhouse to evaluate the extent to which

CINDE's efforts were a "significantly influential" factor in persuading foreign investors to select Costa Rica as an offshore location. The analysis defined "attribution" of a specific investment to CINDE's efforts when it was

...clearly proven that CINDE played an important part in one or two possible roles in the process [of attracting investment]: a) the 'salesman' role where a personal contact with CINDE provided a company with relevant information and thus convinced it of investing in Costa Rica, or b) the 'facilitator role' where a personal contact with CINDE provided the company with a *substantial* amount of services that were *critical* in helping the company accomplish its investment objectives.

CINDE had claimed that from the inception of its marketing activities, 116 companies made investments in the country based on CINDE's assistance. Direct interviews were undertaken with 25 randomly selected companies, a statistically relevant (with a degree of confidence of plus or minus 5 percent) of corporate decision-makers who were responsible for their company's investment decisions. Four levels of attribution with associated weights were established: (a) *clear attribution* (according to the established definition) = 100 percent; (b) *probable attribution* where one of the two roles defined was clearly performed by CINDE but the other was not (or both were only

partially performed by CINDE) = 66 percent; (c) *limited attribution* where neither of the roles were clearly present = 33 percent; (d) *no attribution* where neither role was present = 0 percent.

The evaluation concluded that CINDE's activities had influenced positively nearly 80 percent of their claimed foreign investment between 1986 and 1990³⁶ and 61.3 percent of the \$566 million of direct foreign investment flowing into Costa Rica during those years.³⁷ More revealing and significant, perhaps, was that in 42 percent of the cases the decision to invest offshore had not been made when CINDE approached the company to promote Costa Rica's advantage as an offshore manufacturing location. In the balance of the cases, 58 percent of the companies had already decided to invest offshore but *had not yet determined in which country* when CINDE approached them.

Development of Non-Traditional Exports

CINDE's export development program was also showing signs of success. In 1972, to begin the process of stimulating non-traditional exports to

third countries outside the CACM, the Export Promotion Law (No. 5162) was passed which established "temporary admissions" to provide Costa Rica's entrepreneurs access to goods and materials needed to stimulate exports. Temporary admissions regimes and free trade zones were established by the Export Processing Zones and Industrial Parks Law (No. 6695), adopted in 1981, while export contracts were adopted by the Law of Export Incentives (No. 6955), in 1984. These regimes helped set the policy environment to promote the development of non-traditional exports so that by the end of 1992, non-traditional exports comprised 63 percent of total exports³⁸, up from a 42 percent share in 1980 -- an increase of over 40 percent. The goal of expanding the markets for Costa Rica's exports was also met. By the end of 1989, over 74 percent of exports were flowing to non-CACM countries.

CINDE's role in generating non-traditional exports was fundamental to assisting the successful conversion from a traditional to non-traditional export focus. The transition to non-traditional exports relied in large measure on diversifying the agricultural base to shift the heavy export dependence on bananas and coffee to crops such as strawberries, flowers, green and black pepper, melons and other non-traditional crops.³⁹ USAID devised a "Non-traditional Agricultural Export Strategy 1986-1990" (NTAE) which was designed for CINDE's

³⁶Price Waterhouse. *USAID--CINDE's Investment Promotion Program Attribution Analysis*, October, 1990, p. 10.

³⁷A.I.D. *Latin America and the Caribbean: Selected Economic and Social Data*, April, 1992, p. 157.

³⁸From CENPRO statistics, November 1993, and excludes tourism receipts.

³⁹Non-traditional agricultural exports were defined as any agricultural exports excluding raw coffee, bananas, unrefined sugar and beef.

implementation. The strategy sought to promote investment in Costa Rica's agriculture for diversification into intensively produced crops with the potential for high economic return, and to assist emerging agroindustries at critical points in the development of export markets in the U.S. and elsewhere. The program's implementation was structured to work with CINDE's Marketing Division (PIE at the time), CINDE's Agricultural Division (CAAP at the time), CENPRO and the Ministry of Foreign Trade. The project's emphasis was to reduce constraints to diversification, assist farmers in making the transition and to engage the GOCR in policy dialogue.

The [AID] mission is working with CAAP as the prime implementing agency. CAAP will be the organization primarily responsible for policy dialogue. In addition, CAAP will promote domestic investment in Costa Rican agriculture and assist in defining needs for joint-venture partners. These sector programs will be carried out by CAAP staff with mission counterparts as appropriate....[CAAP has the responsibility] to develop and supervise a production plan which will include: the requirements, scope and timing of studies, definition of needs and technical assistance required, provision of that assistance, training, market research and establishing market contacts.⁴⁰

USAID projected an increase of US \$3.5 million

in 1987 and US \$4.4 million in 1988 of non-traditional agricultural exports as a direct result of the NTAE project through CINDE. By the end of December 1992, USAID had expended US \$2.8 million on the NTAE project through CINDE, and the GOCR had provided CINDE's Agricultural Division with an additional US \$2.47 in equivalent local currency to undertake nontraditional export conversion.⁴¹

The results attributed to the NTAE project through CINDE showed remarkable growth. Measurable increases in Costa Rica's non-traditional agricultural exports attributed as a "direct result" of the project were analyzed in July 1989. They showed project-attributable, non-traditional agricultural exports of US \$5.3 million by the end of 1988 with a projection of US \$62.8 million by the end of 1994,⁴² well exceeding the project's original targets.

Non-traditional *manufactured exports* were also critical to increasing the country's economic growth. In 1983, US \$101.1 million in manufactured exports were sent to the United States from Costa Rica. By 1991, the figure had reached US \$622.3 million -- an average *annual* increase of over 64 percent.⁴³ CINDE's marketing and industrial programs provided extensive training and firm-level assistance to Costa Rica's small manufacturing sector to help foment the increase in manufacturing exports. The vast majority, however, came from foreign manufacturers establishing offshore manufacturing plants under the export contract regime of the free trade zone regime provided by Costa Rica's laws. While CINDE's marketing department was credited with attracting a significant portion of the new

⁴⁰Excerpted from the USAID/Costa Rica *Strategy Paper*, January 1987.

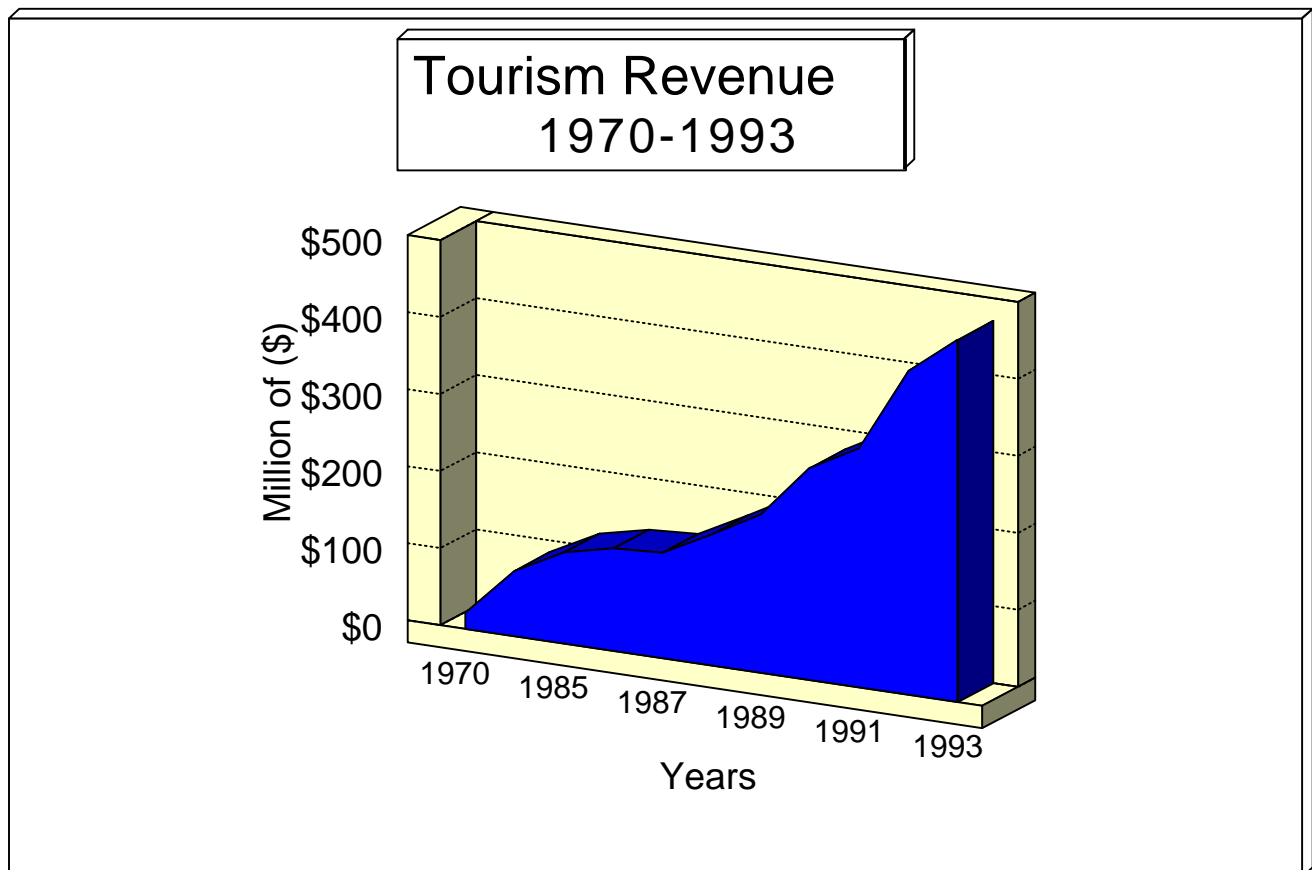
⁴¹USAID/Costa Rica, *CINDE Summary Funding Sheet 1982-1992*, Private Sector Office.

⁴²William E. Bolton (Checci and Company Consulting) and Harry Manion (ATMA International, Inc.), *Evaluation of USAID/Costa Rica Nontraditional Agricultural Export Strategy*, (Contract No. 515-0000-C-00-9035-00), July 1989, p. 34.

⁴³Agency for International Development, *Latin America and the Caribbean: Selected Economic Data*, April 1992, p. 183.

investment in the manufacturing areas (largely into Free Trade Zones) which accounted for the bulk of non-traditional manufactured exports, CINDE's industrial division, created in 1990, focused on Costa Rican manufacturers who demonstrated potential for successful international competition. The division's activities concentrated on providing intensive and specific training to those companies and provided highly subsidized technical assistance to firms in order to position them for export competition. The sectors of concentration included plastics, metal-mechanics, agroindustry, and the textile/apparel industry. By 1991, CINDE claimed that "[t]he industrial division generated a total of U.S. \$7,131,785.00 in industrial exports effectively obtained (*realizadas*) during 1991. From this total, 62 percent were generated by businesses to which we had given technical assistance."⁴⁴

Finally, the non-traditional exports category includes revenues from tourism. Tourism growth in the country has climbed rapidly in the



⁴⁵"Ecotourism" may be defined as tourism which encourages the protection and sustainable utilization of the ecosystem and which appeals to adventure, ecological or conservation-minded tourists. Estimates are that each ecotourist spends an average of six times the amount spent by a conventional package tour participant.

⁴⁶Mario Rojas Vega established a "ecotourism" hotel on his land along the Rio Reventazón in Turrialba. He is first cousin to Robert Rojas who was Minister of Foreign Commerce and Economy in the Calderón Administration and an ardent supporter of tourism development as a matter of GOCR policy.

⁴⁶ Additional pressure to pursue tourism development was applied by Ernesto Rohrmoser, CINDE's Executive Director during the 1991-1992 transition period, who had an interest in developing the "Papagayo" project on Costa Rica's west coast.⁴⁷ CINDE's activities for supporting tourism development increased during 1988-1992, as the organization's leaders recognized its potential for contributing to both ecological conservation and economic growth.

Training

An underlying factor of CINDE's success in stimulating non-traditional export development was the recognition early in the institution's history of the pivotal role of developing human capacity. The *Programa de Capacitación* (PROCAP) began with A.I.D.'s provision of US \$3.36 million in project grants during August 1984.⁴⁸ The project's objective was to provide short-term, technical training in-country and to sponsor a limited number of observational tours to the United States for non-traditional exporters. Its goal was threefold: (1) to increase exports, penetrate new markets and initiate new export projects, (2) increase productivity and reduce production costs, and (3) strengthen overall human resources to develop the capacity of the private sector.

A recent (1993) evaluation concluded that 60.6 percent of the 91 firms evaluated attributed an increase in their export production to PROCAP training. In terms of sector composition, those firms attributing PROCAP with contributing to an increase in exports included 54.8 percent of the agroindustrial firms interviewed, 60 percent of the industrial firms surveyed and 100 percent of the service firms which participated. Results were equally impressive for increased production, productivity and strengthening of human resources which firms attributed to their PROCAP experience.

En efecto, todos los participantes apuntan algún aspecto de fortalecimiento, fundamentalmente, un mejor conocimiento del mercado estadounidense y sus particularidades y una mejor visión empresarial. El 82% calificó la utilidad de la capacitación como buena o más que buena. La mayoría la considera muy buena o excelente. Sólo el 8.7% la consideró de regular utilidad y el 1.1% la consideró 'de ninguna utilidad'.⁴⁹

PROCAP's activities, while oriented toward the private sector, had an impact on the public and university sectors as well. Participants in those sectors were equally enthusiastic with the quality of training and its usefulness to their respective specialities.

Before CINDE began its training for the non-traditional private sector exporters, there were virtually no other organizations dedicated to providing professional short courses and seminars for the sector. Today,

⁴⁷Papagayo had begun in the 1970s as a part of the GOCCR's development plan. It rapidly became an infamous "white elephant". Infrastructure was laid but not completed. Rohrmoser became interested in helping to speed privatization efforts when he was the Executive Director of FINTRA, S.A., the privatization "trust" founded by USAID. He became frustrated by the intractability of many of Costa Rica's laws concerning ownership and management of beachfront property and the ardent resistance of certain GOCCR officials within the Tourism Agency who viewed Papagayo as a GOCCR prerogative.

⁴⁸See A.I.D. Project 516-0212, *Cooperative Agreement and Memorandum of Understanding*, USAID/San José: August 1984.

⁴⁹A.I.D., *PROCAP Short-Term Training Evaluation*, 1993, p. 4.

there are numerous organizations offering training choices to help resolve export problems. PROCAP's training acted as a catalyst, stimulating Costa Rica's export sector with new knowledge and approaches to solving marketing and production problems. By the end of 1992, PROCAP's training programs and seminars were recuperating nearly 65 percent of the program's total costs.⁵⁰

CINDE had come far in its ten-year history. Despite, or perhaps because of, its many management transitions, and because of its flexibility and access to resources during critical times, CINDE had significantly contributed to Costa Rica's objectives of sustainable economic growth. It could appropriately and legitimately

claim the creation of 35,766 jobs and the generation of US \$346.83 million in value added exports. CINDE had achieved both technical goals of export development and investment promotion and had earned a reputation as a dedicated and competent part of the GOCCR's strategy for economic growth.⁵¹ CINDE had managed to meet and even exceed its organizational objectives. The question was, however, what made CINDE unique to other EIPO organizations around the globe that had failed to achieve both output and institutional objectives?

WORKING WITH THE GOCCR

Government cooperation and commitment to an export-oriented economy are arguably the single most important factors influencing an EIPO's success. In CINDE's case, the extent of favorable GOCCR policy-making largely framed CINDE's success in export development and in attracting foreign investments. It had survived three political administrations under two different parties with only moderate changes to the technical goals of the organization. The single constant was an increasingly favorable policy environment. Over time, a real sense of "partnership" developed between the GOCCR and CINDE and each side learned to respect the institutional boundaries of the relationship.

Government commitment to the goals of export development and investment promotion is a necessary element to an EIPO's success, but it alone is an insufficient condition. Government rhetoric of support must translate into substantive policy. Inherent in CINDE's achievement was the government's support for and adoption of macroeconomic trade reforms, privatization, financial liberalization, and the willingness of the GOCCR to A cut its losses@ by departing from unsuccessful government-controlled models of EIPO development, which provided CINDE with the flexibility and autonomy to pursue its objectives. The government also agreed to commit substantial portions of its AID-generated local currency to CINDE's programs.

⁵⁰InterAmericas Group, *CINDE Evaluation*, October 1992, p. 34.

⁵¹See Annex 3.

What explained, however, the government's motivation in relinquishing its responsibility to a private association for implementing the country's trade promotion activity? The efficiency of service provision which CINDE provided was clearly one part but it was unlikely the single most important element in the GOCR's decision to divest its implementation responsibilities for the country's export and investment promotion to a private association. Most likely, the decision was linked to the external pressures of the donor community, especially USAID, which lobbied for a private sector approach to the management of trade promotion activities by using its considerable resources to leverage an initially hesitant GOCR divestiture. The relatively large sums of U.S. foreign assistance which flowed into the country, combined with a vigorous U.S. government approach to problem-solving through private sector mechanisms were probably more influential in the GOCR's decision to relegate its responsibility to a private association than any other single factor.

More intriguing, perhaps, are the reasons why the relationship between CINDE and the GOCR, which were essentially "purchased" through the generous contributions of AID, has *continued* to survive as donor contributions diminish. One answer is that, as CINDE's sponsor, the GOCR could also take credit for CINDE's success in meeting export and investment promotion targets. Its accomplishments added credibility to the institution and provided the GOCR with a degree of confidence in CINDE's ability to deliver results, something CENPRO had rarely accomplished in the past.

The GOCR's commitment to policy liberalization, its financing, and its willingness to accept CINDE's unconventional structure were important elements in CINDE's achieving its operational mandate and its institutional evolution to a self-sufficient entity. The GOCR had, after all, a government-managed CENPRO. Yet it had agreed to sponsor the foundation of a new model for CINDE. As a private, "independent" association of private individuals, CINDE was not *formally* subjected to GOCR pressure to adhere to a particular development plan or objective. Nonetheless, given its reliance on donor funds (a large portion of which flowed through the GOCR), CINDE cooperated closely with the government in helping to formulate policy and influenced a legislative direction that favored export development.

In essence, CINDE became a policy "think-tank" for trade and investment issues upon which the GOCR could rely for solid analysis and implementation support. CINDE had attracted the best young minds in Costa Rica in part because its salary structure⁵² was far superior to many other private sector firms in Costa Rica and also because its mission was viewed by many young, public service-oriented Costa

⁵²One A.I.D.-commissioned study, undertaken by Price-Waterhouse in 1991, indicated that CINDE's management, its overseas promoters, and some of its technicians earned 30-60 percent above comparable positions offered by national and international firms in Costa Rica.

⁵³By 1990, CINDE employed 265 people. Just four years before, in 1986, it employed only 92. USAID Memorandum to Kenneth A. Lanza, Director, Private Sector Office USAID/Costa Rica from John Holder, Investment Consultant, September 4, 1991.

Ricans as an important and worthwhile development effort. The influence wielded by this group of young activist employees⁵³ left an important mark on the GOCR and brought innovative private sector perspectives directly to GOCR leaders.

CENPRO's contributions also were enhanced. As part of CINDE's planning, CINDE-employed technicians acted as "advisors" to CENPRO, helping to coordinate the work between the GOCR's official promotion agency and the private sector agency. A division of labor was established to minimize duplication of activities with CENPRO's role focusing on "facilitator" activities, i.e., assisting local exporters to attend trade shows, administering the free trade zone regulations and collecting statistics. CINDE's role consisted of "promoter" activities, i.e., selecting sectoral and firm-level interventions, establishing overseas promotion offices and providing a full range of investor services. This division of responsibilities helped to make each organization efficient and focused in achieving many facets of the export and investment strategy.

USAID facilitated this relationship by contracting the services of a consulting firm, CARANA, to provide a technical advisor to CENPRO. The "advisor" was appointed as CENPRO's Director (a position usually reserved for a high-ranking civil servant) and reported to the Minister of Foreign Trade. Under CARANA's advisor, CENPRO instituted a "one-stop" window (*ventanilla única*) where exporters could complete all the necessary documents required by all GOCR agencies and ministries in one location. The time needed to process export forms (i.e., foreign currency uses, licenses, product registrations, c.i.f. and f.o.b. values etc.,) was reduced to a few hours instead of weeks.

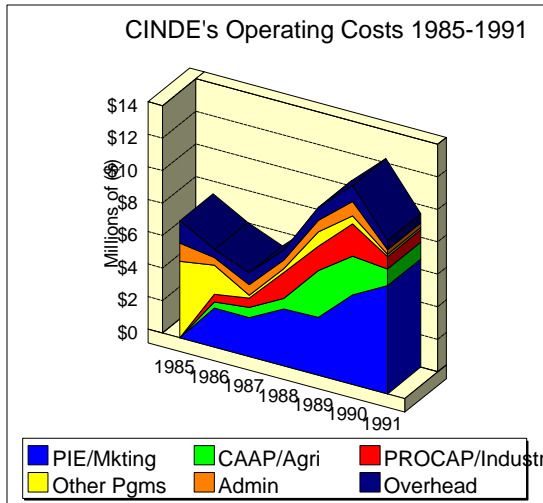
THE TRANSITION TO SELF-SUFFICIENCY

CINDE entered a transition phase in December 1990 when USAID provided its final "institutional support" grant. It has been widely recognized⁵⁴ that the positive externalities generated by EIPOs justify some government support because the costs of services are unlikely to be fully recovered by the private sector. CINDE's institutional development challenge was to obtain the necessary financial support to sustain its operations.

As it has restructured and downsized in an effort to conserve resources, CINDE's total annual budget dropped to US \$4.4 million in 1993 from the previous year's US \$5.9 million and from a high of US \$11.27 million in 1990.

⁵³By 1990, CINDE employed 265 people. Just four years before, in 1986, it employed only 92. USAID Memorandum to Kenneth A. Lanza, Director, Private Sector Office USAID/Costa Rica from John Holder, Investment Consultant, September 4, 1991.

⁵⁴ See Keesing and Singer, for example.



Its *core* costs, or those central to CINDE's main staff and administration, will come from two principle sources. First, CINDE's "own" funds will provide the primary source. They include (1) dividends it has earned from investments made with AID grants, (2) interest flows on US \$25.5 million of USAID-donated equivalent local currency rediscount lines in the Central Bank of Costa Rica, (3) interest on banking accounts, (4) dividends received on ownership of P.I.C. shares or the capital gains received from their sale, and (5) funds recovered from the sale of tangible assets.⁵⁵

Second, a USAID-created Costa Rican export foundation, FUNDEX, established by a Joint Local Currency Subprogramming Agreement between the GOCR and USAID on October 24, 1990 received a US \$27.15 million equivalent endowment. The funds were provided primarily for the purposes of subsidizing CINDE's activities as long as CINDE continued to achieve its "objectives" as defined by the GOCR and agreed to by USAID. As stewards of those resources, FUNDEX's Board of Directors was to assure that those objectives were met. FUNDEX would also solicit grants from private U.S. and European foundations to support CINDE's work and other export development efforts in Costa Rica.

Competition for FUNDEX's scarce resources would be assured since the FUNDEX-AID-GOCR agreement also required it to consider assistance to other organizations offering similar services. CINDE would receive continued support only if its high performance standards were maintained in the judgement of FUNDEX's Board of Directors.⁵⁶ CINDE's projects would be financed from a combination of cost recovery efforts, direct *project* assistance (as opposed to institutional support financing) from

⁵⁵Tangible assets means such items as cars, furniture and office equipment.

⁵⁶The October Agreement did not *obligate* FUNDEX to fund CINDE. It required only that funding be provided to certain "program" areas listed in Annex I of the Agreement, which could be carried out by *any* group deemed capable by FUNDEX's Board of Directors in accordance with the grantee selection criteria listed in the Agreement. It was presumed and understood, however, that CINDE was the most experienced and capable private entity in the country for providing export and investment services and that competition would be limited initially. It was expected that once FUNDEX's funds were made available, other potential grantees would compete for resources thereby injecting sufficient competition to encourage CINDE's continued efficiency. In fact, by September 1993, FUNDEX was assessing grant applications from five other entities, public and private, to provide various services. See FUNDEX, *Informe de Actividades*, September 1, 1993.

⁵⁷For example, the InterAmerican Development Bank recently agreed to a US \$5 million export

AID and other donors (such as FUNDEX), government grants and from private sector contributions.⁵⁷

Nonetheless, a fully successful transition toward self-sufficiency depends upon CINDE's ability to manage and maximize its resources while concurrently adapting to and meeting the demands of the country's changing environment. A long range planning exercise concluded that

...CINDE must ensure its financial viability and sustainability. Not only must CINDE be efficient, effective and professional, but with the availability of funds from FUNDEX decreasing over the near future CINDE must maximize in a financially sound manner the use of its internal resources, staff, equipment, and capital, and develop a plan that will leverage such resources.⁵⁸

Recognizing its financial vulnerability, CINDE has actively promoted a "cost recovery" objective as the central part of its overall strategic plan. The plan call for divisional managers to increase revenue from service fees by 4.8 percent each year beginning in 1993, while holding operations expenses constant in colón terms.

The general experience of EIPO organizations with regard to financial self-sufficiency has been dismal, however. The nature of the services imply both high costs and limited direct return. As a recent evaluation concluded,

Real progress on sustainability requires, first of all, a tough-minded and realistic assessment of the potential for financial self-sufficiency, that is, a situation in which the revenues derived from services cover the costs of those services. Evidence clearly indicates that investment promotion activities cannot support an investment promotion agency without some form of public or private sector grant support. Although export-promotion activities (e.g., marketing and production research services) can more easily be put on a fee basis than can investment promotion services, official export promotion agencies still require some form of subsidy or grant financing.⁵⁹

Yet the concepts of receiving government support, meeting private sector needs and establishing financial self-sufficiency are not as incompatible as they might seem. The nature of an organization and the structure of its management affects its capacity and predisposition to achieve financial self-sufficiency. In fact, financial self-sufficiency requires that a balance be established and maintained between separate constituencies within the government, the private sector and the donor communities. To achieve this balance, CINDE's long term communication plan⁶⁰ proposed the following:

development project (finalized in March 1994) which CINDE will administer. Additionally, the Republic of China (Taiwan) has provided US \$5 million to the Central Bank of Costa Rica in April 1994 with a portion of its FUNDEX- administered interest earnings dedicated specifically to CINDE's investment promotion activities. A.I.D. initiated contact with the Taiwanese Ambassador to Costa Rica, H.K.Tsao, and through a number of informal meetings over a two-year period, convinced him of the worthiness of contributing to CINDE's development.

⁵⁸Thomas, Joseph, *Recommendations for the CINDE Long Range Strategic Plan*, InterAmerica's Report to Oscar Cabada, General Manager, CINDE, October 9, 1992.

⁵⁹A.I.D., *Special Evaluation No. 69*, May 1990, p. 41.

⁶⁰InterAmericas Group, *Communications Plan for CINDE*. Miami, Florida, Exitos Consulting Team, October 1992.

Improve Constituency relations/interaction: Communication should be used to gather information from the constituencies on their needs and to involve more groups and individuals in the support and implementation of projects and activities.

Improve Cost Recovery: Communication is used to convey the need for cost recovery, to market products and services and keep in touch with market needs.

Diversify the Donor Base: CINDE will need to establish and maintain communication channels with all of the international donors, FUNDEX, as well as the GOCR sources and potential donors within the private sector.

Leadership in Building a Costa Rican Development Agenda: This new component of CINDE's role will need to be established by bringing key actors together and facilitating a consensus based decision-making process. CINDE will then need the capability to develop an effective policy advocacy communication strategy.

Building and Maintaining Interinstitutional Collaboration: CINDE has elected to place a much greater emphasis on interinstitutional collaboration, a role which needs to be established through effective communication. Joint efforts on projects will require ongoing interaction and information dissemination among the network of collaborators.

Project Fundraising: As the need for new projects is identified, CINDE staff will need the ability to identify potential sources of funds and solicit them through effective presentations.

Self-Sustainability: The Theoretical Effects of Definition, Measurement and Attribution ⁶¹

The high returns to the country's aggregate economy through the positive externalities generated by export and investment promotion services are in little doubt when the policy environment is appropriately constructed. In fact, CINDE itself helped establish a favorable environment through policy advocacy and technical assistance to the GOCR. Private sector capture of those positive externalities, however, is difficult. High social returns and the difficulty that private firms face in directly capturing positive externalities create an ideal case for government service provision. Nonetheless, this "market failure"⁶² should not be confused with the inability of a EIPO provider to *become* financially self-sufficient as long as (1) its objectives are clear, (2) its institutional design is structured appropriately to accommodate a changing environment and the shifting demand for its services, (3) a reasonably clear level of attribution can be drawn between donor inputs and EIPO outputs and (4) sufficient opportunity for competition to provide services exists or is expected to be generated given the demand for them.

The conventional definition of financial self-sustainability⁶ generally refers to a state achieved by profit-maximizing organizations. However, that definition is limited in scope and not especially useful in its application to explaining EIPO potential. It states that financial self-sufficiency implies an organizational capacity to generate sufficient revenue from the sale of its services to users to cover the organization's costs of providing them. It is presumed that financial self-sufficiency can be achieved

⁶¹See John D. Donahue, *The Privatization Decision*. New York: Basic Books, 1989, Chapters 1-3 for an exhaustive and interesting theoretical discussion.

⁶²See Edith Stokey and Ricah Zeckhauser, *A Primer for Policy Analysis*, New York: 1978, pp. 298-308, for a discussion of the five primary causes of market failures in which the inability of the private sector to capture externalities is one cause.

only if those *directly benefitting* from the services are willing to pay for them in their entirety. While that definition may be appropriately applied to profit-maximizing organizations, it is insufficient for establishing a standard of financial self-sufficiency in nonprofit oriented EIPOs.

If the conventional definition is broadly and more appropriately defined as the ability of an organization to *acquire from whatever the source* the resources necessary to sustain its administration and to provide a minimal level of core services, then EIPO financial sustainability *can* be obtained by demonstrating clear objectives, accountability, and measurable attribution. For example, it is presumed that EIPOs which receive government grants are not financially self-sufficient by the very fact that the sale of their services cannot cover the cost of providing those services and because they rely on government grants to cover operating costs. Leaving cross-subsidies aside,⁶³ if one were to consider the government as a *user* or benefactor of those services whose return (positive externalities) exceed its costs (grant), then as long as government's objectives were being satisfied, grants to the EIPO would essentially cover the costs of the services provided. Hence, as long as services are in demand, are competitively priced and are achieving their objectives at an acceptable rate,⁶⁴ then EIPOs could theoretically achieve financial self-sufficiency. Presumably, if governments cease their funding support, either the financial measure of positive externalities (returns) no longer sufficiently exceeds the cost of the grant (investment) or government policies toward trade liberalization and promotion have changed. In *either* case, demand for EIPO services would decline and so should the institutional capacity to provide them. A retrenchment strategy would be an appropriate and expected response just as it would be for a consumer products company that finds demand for its product waning.

EIPOs' relationships with governments are perhaps even more difficult to understand given the difficulty and ambiguity of attributing government inputs to EIPO outputs. For example, governments can easily measure how many shoes are produced at a state-owned shoe factory and can link the number of shoes produced to the number available. In other words, there is a direct and readily identifiable correlation between government input (subsidies to make shoes) and the factory's output (the availability of shoes). Determining a level of attribution to the output of an EIPO's services, however, is a much more difficult task. Yet measures of aggregate increases in direct foreign investment and levels of nontraditional exports can be taken and verified. It is precisely those aggregate government measures to which EIPO performance should be linked. While attribution is difficult to clearly and precisely ascribe to EIPO services, it is not impossible.

It is unrealistic for EIPOs to charge users for all of their services or to expect recuperation of all operating costs from fee-based services. However, as long as the positive externalities generated by the provision of services continues to exceed government's contribution to generate them, then society benefits. Government, as society's agent, becomes one of the EIPO's principals. It also becomes its *indirect client*. Thus, government's provision of resources to EIPOs is fully justified when its economic

⁶³Cross subsidization refers to the process through which the profits from fee generating services are applied to the expenses of providing other services which do not fully recover costs.

⁶⁴One difference between a profit maximizing private entity and a nonprofit maximizing, private entity providing a public service is, of course, the measurement of results and attribution of those results to effort. In the former, measurement of demand, price levels, and competition is relatively easy. It is a far more difficult task to measure positive externalities and to attribute their cause directly to the EIPO service provision.

return to society is lower than government's costs of providing a grant to the EIPO. As long as EIPO services are *efficiently* contributing to the goals of the government, then these services will be in demand. As long as the demand for services, exists, financial self-sufficiency for EIPOs is possible.

The Nature of the Principal-Agent Relationship and the Structure of EIPOs

The central issue is not whether EIPOs require government or donor funds to supplement operational costs. They do. Rather, at the core of understanding financial self-sufficiency is the principal-agent relationship between EIPOs and the government. The principal-agent theory postulates⁶⁵ (1) that agents act on behalf of the principal, (2) that although interests may be unequal, there may be incentives to cooperate, (3) that contractual arrangements are sought to induce the agent to behave to maximize the welfare of the principal and (4) the principal is assumed to be unable to change the payoff. In CINDE's case, its institutional design and method of governance altered the conventional principal-agent relationships.

As Keesing and Singer have shown, EIPOs that have been structured formally as part of government institutions or ministries have not fared well either in achieving technical objectives or accomplishing institutional development ones.⁶⁶ One reason for this can be found in the X-inefficiencies⁶⁷ that creep into bureaucratic systems, lack of structural and organizational flexibility and interference in technical decisions based on political motivation.

Yet EIPOs, even when legally constituted as *private entities*, are still agents of government because they are, in most instances, carrying out government objectives and using some government funds to do so. EIPOs are meant to provide services to meet overarching government objectives for trade development, but that should *not* mean that government bureaucrats need to control operational or even strategic decisions. In fact, experience indicates that to be successful, EIPOs must maintain autonomy in their decision-making processes in order to assure efficiency and guard the integrity of the technical decisions. In much the same way, private voluntary organizations help government to meet poverty alleviation objectives without direct government control or interference in operations. Rather, government funds are used to meet shared objectives:

The designation [as an autonomous entity] itself has a certain influence on the nature of the institution's responsibilities and activities, and on the degree of autonomy with which it operates. For instance, authorities, boards and councils have often been established, as their name implies, as a forum composed of government officials who decide on export promotion and development matters. They are provided with a technical and operational secretariat for the implementation of their activities. In addition to their normal trade promotion work, some of these bodies have policy-making responsibilities, and in many cases they are granted coordinating functions.⁷³

⁶⁵See Yair Aharoni, 'State Owned Enterprises: An Agent without a Principal,' in Leroy Jones, *Public Enterprises in Developing Countries*. Cambridge: Cambridge University Press, 1982.

⁶⁶See Keesing and Singer, 'Development Assistance Gone Wrong,' World Bank, 1989.

⁶⁷See Harvey Leibenstein, 'Allocative Efficiency versus X-Efficiency,' *American Economic Review*, 1966. He defines x-efficiency as the natural tendency for bureaucratic organizations to gradually lose discipline and rationality and a tendency to depart from unnatural industriousness.

⁷³Jaramillo, Camilo, 'Trade Promotion Organizations: A Variety of Approaches.'

The legal structure of the institution and the creation of a private sector constituency, therefore, can help to redraw the boundaries of the principal-agent relationship and to broaden participation to private sector groups. Private groups can both lobby government to change sector objectives and can contribute directly to the EIPO itself as it undertakes activities and provide services which they deem important.

Can movement towards the national objectives of increasing value-added exports and investment be attributed to the EIPO's inputs? In the case of investment services and export promotion activities, measurability of *inputs* is relatively simple, i.e., how many investors did it assist, how many courses did it provide to exporters, how many participants attended? The more difficult and important measure is the *output* or the consequences of the services. The terms under which the principal-agent relationship is defined and the structure of the organization determine the extent of government accountability for results and determines acceptable methods of measuring achievement.

The behavior of EIPOs, therefore, is not entirely explainable in the conventional principal-agent terms. For example, as agents of government EIPOs can be a significant force in selecting and pursuing their own objectives, given the frequent lack of clarity in the principal's (government) objectives and because of competing interests of the two principals (government and the private sector) in manipulating the agent.⁷⁴ An EIPO's behavior and achievements should not be analyzed only as a set of contractual outputs (i.e., provide so many training courses, assists so many investors, make so many cold-calls etc.) but must be considered as the result of an intermingling of interests between a coalition of managers, the board of directors, government ministers, civil servants, and donor agencies. This certainly was the case with CINDE.

In essence, the principal-agent relationship between EIPOs and governments, the clarity of objectives set forth in those relationships and the nature of attribution of outputs affect the capacity of EIPOs to be financially self-sufficient. The more measurable and attributable its output (the funds) to its efforts, the more likely it will be able to obtain funds. The more diffuse the government-decreed objectives, the weaker are its links and attribution to output and the less the likelihood of support. Hence, the principal-agent relationship also influences an EIPO's organizational structure which, in turn, affects its capacity for financial self-sufficiency.

Organizational Structure and Its Impact on Self-Sufficiency

Is CINDE's institutional structure designed to provide insulation from government's micromanagement and political manipulation even though it receives government support? Is it flexible enough to respond quickly and appropriately to private user demands and at the same time satisfy the government needs for measurement, accountability and attribution? In essence, CINDE seems to have struck an appropriate balance for satisfying both needs: independence and measurable results. Its achievements, however, were more likely serendipitous than earned by prudent and foresighted planning and design.

Perhaps the layering of principals phenomena helped to position CINDE for its institutional successes. For example, the GOCR determines the overall export and investment goals for Costa Rica to which CINDE's activities must contribute if it expects to bid successfully for government grant funds. In

⁷⁴ See Yair Aharoni, *State-Owned Enterprise: An Agent without a Principal.*

addition, however, FUNDEX, as a private foundation with minimal government input, acts as an independent intermediary for deciphering and monitoring CINDE's achievements and for authorizing additional funds based upon those same objectives. This layered and balanced relationship provides CINDE, the agent, with a degree of insulation from a politically motivated shift by *one* of its principals, the government. It also provides a powerful forum for a well-endowed private sector foundation to influence the direction of CINDE's efforts and to counter potentially negative impact of government manipulation.⁷⁵

A key element in the success of TPOs [EIPO] is the active involvement of the export community in the selection and implementation of the organization's activities, and one of the best ways to achieve this is to have the business sector adequately represented on the board either through experienced business men or women, or representatives of private organizations. Such involvement can also be reinforced through the establishment of consultative or advisory committees for the TPO.⁷⁶

In order to capture efficiently the positive externalities which governments seek from trade development activities, EIPOs require *flexibility and autonomy* in operations. National *input* targets (e.g., spend this amount of money on training, and this amount on investment promotion, etc.) should be linked to government's *output* objectives (i.e., increased value-added exports, increased level of direct foreign investment, new jobs created, etc.) if EIPOs are utilizing public funds. Indeed, they would not likely be the recipients of public funds unless their activities were supportive of their government sponsors. Yet to be effective, EIPOs should have the freedom to make technical decisions without undue political influence and in response to their largely private sector constituency .

Self-sustainability, as we have defined it, will be affected by the extent to which an EIPO can manage its own focused agenda while balancing private sector interests and demands with government's need for measurable, attributable results. Consequently, an EIPO's legal framework and organizational structure are significant factors in determining its capacity to be financially self-sufficient. CINDE's transition toward financial self-sufficiency is underway. Cost recovery is only one component of a broader strategic plan which incorporates constituency development and interinstitutional collaboration. Developing a sense of private sector ownership is also an objective which will contribute to assuring its financial base.

In summary, it is clear in the literature that trade development organizations require donor or government input to sustain a full range of export and investment promotion services. However, acceptance of outside sources of funds should *not* imply a lack of financial self-sufficiency if one expands the conventional notion of financial self-sufficiency to apply to nonprofit organizations providing public goods. The transition to a financially self-sufficient organization, then, is achievable as long as the services provided by the EIPO are in demand, whether by the government to help meet national output objectives, or by the country's private sector users. Obviously, the nature and level of services provided will be affected by the availability of resources, but an EIPO can increase the demand for its services by

⁷⁵ Of the five FUNDEX Board Members, all are highly regarded private sector professionals with only two appointed by the GOCR.

⁷⁶ Jaramillo, Camilo, A Trade Promotion Organizations: A Variety of Approaches.

providing measurable results which are attributable to its efforts. However, to deliver effective and efficient service, EIPOs should be insulated from political manipulation which compromises technical decisions. They must also be able to retain any financial surpluses from year to year so a degree of stability and certainty is injected into their operations. Their legal framework and organizational structure, therefore, become important elements in determining their capacity to achieve financial self-sufficiency.

LESSONS FROM A SUCCESSFUL MODEL

CINDE has made significant contributions to the country's economic restructuring through the development of nontraditional exports and through investment promotion. It has approached its tasks systematically and comprehensively, if not always smoothly, addressing a wide range of issues affecting trade and investment, including promotion, marketing, regulation, technology and the formation of public policies.

CINDE's success stems largely from (a) its legal status, (b) its organizational structure, (c) its institutional flexibility, (d) its technical capacity, (e) its early and considerable access to resources, and (f) its management of GOCR and donor relations. The characteristics that allowed CINDE to succeed include the following:

□ **It maintained substantial operational autonomy from the GOCR, yet worked effectively and flexibly with it toward the same goals.** While most EIPOs are public entities under the formal direction and budgetary control of government, CINDE's legal structure safeguarded its budgetary autonomy and minimized political interference, allowing it to avoid many of the problems associated with government-run trade promotion organizations in other countries, *an achievement largely attributable to its private status.*⁷⁷ The U.S. Government's interest and sponsorship through USAID also acted to ameliorate potential political manipulation of the institution. CINDE's flexibility allowed it to shift human and financial resources as the policy environment changed and realities shifted. The nature of its funding agreements with A.I.D. and the GOCR were not unduly restrictive and did not impede CINDE from reallocating resources according to changing circumstances. As Keesing and Singer point out, "A useful element...is built-in flexibility. Experience in this area shows that institutions [which are not flexible] created in the early stages of a policy transition remain unsatisfactory and start to hinder export development as the country policies toward manufactured exports improve."⁷⁸

□ **It did not monopolize the suppliers of export-related services and information.** CINDE's structure and *modus operandi* fostered rather than stifled other private sector organizations which provided similar services such as the American Chamber of Commerce, local agricultural chambers, private consultants, financial and legal services. For example, CINDE often subsidized Chamber training activities with a direct infusion of funds. It also referred potential investors to reputable local lawyers and financial intermediaries.

⁷⁷Nash, *Costa Rica: Sustaining and Strengthening Links to the World Economy*. Washington, D.C.: World Bank, Trade Policy Division, December 1991, p. 12.

⁷⁸Keesing, Donald B. and Andrew Singer, *How Support Services Can Expand Manufactured Export*, pp. 19 and 33.

□ **Its structure insured private sector involvement and collaboration, especially in program design.** The 10-member Board of Directors and each division's advisory board were drawn from CINDE's current 84-member private sector assembly representing a range of domestic industries and services with interests in export and investment issues. Private sector involvement in selecting and designing projects assured a demand-driven program and provided ample support. Its internal organization also assured its efficient provision of services. As Keesing and Singer recommend,

Project components for promoting investment and providing support services for exports should almost certainly be kept separate...Experience suggests that when export promotion services to locally owned firms are combined with investment promotion, one task nearly always dominates to the detriment of the other.⁷⁹

CINDE's internal organization divided the responsibilities between two separate divisions -- a Marketing Division responsible for investment promotion and services and an Industrial Division which provided export services to local manufacturers.

□ **It focused on in-depth research and promotional activities in targeted industries that showed potential for strong export development.** CINDE's targeted promotion of export sectors channeled scarce resources into specific industries to encourage the development of competitive and comparative advantages. Specifically, those sectors included the plastics, metal-mechanics, agro-processing, electromechanical and electronics subsectors. In agriculture, research and technical assistance focused on the development of nontraditional agricultural products such as asparagus, strawberries, melons, broccoli, cacao, hot chilies, macadamia nuts, tomatoes for processing, black pepper, ornamental plants and flowers. CINDE also successfully concentrated on developing ecotourism. Tourism receipts, for example, grew from US \$20.9 million in 1970 to US \$420 million in 1992. CINDE recognized its dynamic comparative advantages in searching for elements of uniqueness in factor supplies such as the input availability, labor skills, relative factor costs, location and transport costs. It was able to successfully shift priorities as the GOCR's economic policies changed, often providing advice and assistance.

□ **It made effective use of financing to support and encourage export activities.** Nothing succeeds like success. Resources were efficiently and effectively allocated which encouraged further grants to CINDE to sponsor its activities. In addition, the ability to measure its contributions and to directly attribute⁸⁰ to CINDE levels of export and investment growth enhanced its credibility and helped to convince bilateral and multilateral donors that it was an effective institution which could meet donors' objectives. Limited use of CINDE's grant resources to fund GOCR agencies, such as CENPRO, to strengthen its capacity to provide export services, also proved to be a valuable strategy both from a "political" perspective and from a technical one.

□ **Institutional evolution was sequential and synchronized with the country's comparative advantages.** CINDE began its services in 1983 primarily as a transmitter of

⁷⁹Keesing, Donald B. and Andrew Singer, *How Support Services Can Expand Manufactured Exports*. World Bank, WPS 544, November 1990, p. 31.

⁸⁰As provided by the Price-Waterhouse study of 1990 and the Nash evaluation of 1991.

information and evolved into a **facilitator** organization as its structure permitted. Its evolution to a **promoter** institution, while planned early, was pursued only after the country had positioned itself to accommodate investors' expectations and exporters' capacities. Creating false expectations among investors and exporters alike can be damaging to creating and promoting the country's image in a world market. For example, luring investors with assurances of a trained and eager workforce, favorable foreign investment policies, easy transportation access and tax havens will backfire if the workforce is not eager or trained and if the government is unable or unwilling to adjust policy and to create and maintain favorable conditions. Likewise, domestic exporters enticed with the promise of access to profitable foreign markets will also be discouraged when products are rejected for substandard quality or the quantities ordered by foreign purchasers are too large for local firms to accommodate. Therefore, to promote investment successfully requires first working with government to create a favorable and stable environment. Developing an export base also requires sufficient training, upgrading of technology and marketing to assure that the linkages to foreign purchases are sustained once they are created.

Several general characteristics also must be present if an EIPO is to be successful:

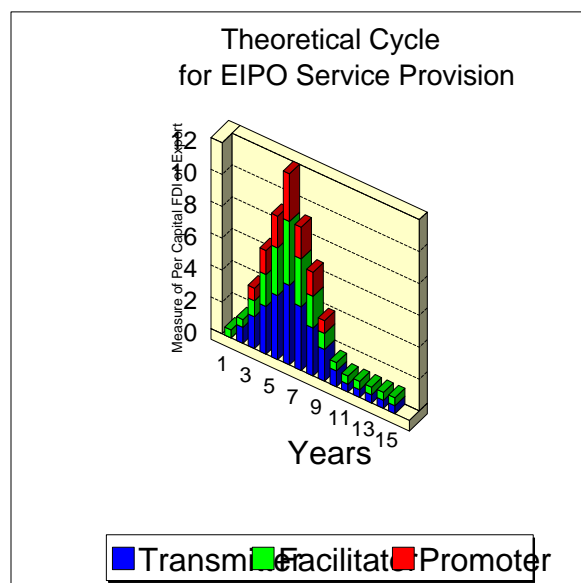
□ **Organizational flexibility should be an integral part of an EIPO's structure to accommodate the transitions between modes of services which the country requires at different stages of its economic progress.** An organization's structure must be flexible enough to accommodate an institutional ebb and flow which is linked to both the country's environment and the government's capacity to change business conditions. Services should begin at the basic and broad level of a transmitter organization, move to the more advanced services provided by a facilitator organization, and evolve eventually to the directed and segmented service provided by a full promotion. The sequencing is important to avoid the problems inherent in promising investors and exporters favorable conditions which may not yet exist or which may be largely transient.

□ **The timing of an EIPO's transition from one mode to another should be synchronous with government's success at changing the business climate.** The EIPO's timing for transforming from a transmitter to a facilitator to a promoter organization and back again will be linked to the government's capacity and willingness to create a favorable environment. Once the perception of stability is achieved, where incentives and the business environment are competitive and efficient, EIPO activities should retrench from an active promoter role to facilitator or transmitter modes. As investors' confidence in the favorable business environment increases and the country's advantages become known, large-scale proactive promotional programs can no longer easily provide the yields to make them efficient investments, either financially or when viewed by a social cost benefit measure. In CINDE's case, the transition from transmitter to facilitator took the initial two years of its operation -- 1983 and 1984. Its subsequent move to a promoter organization was accomplished in 1985. Its transition back to a facilitator mode began in 1991 as foreign promotion offices were closed and resources shifted again toward training.

□ **An evolutionary pattern of EIPO service provision which begins slowly with basic information services, rises to include facilitation and promotion and then retreats back**

⁸¹ **Kuznet's Curve** is essentially an inverted **U** shape which Simon Kuznet used to demonstrate the relationship between per capita GNP and inequality, in which the distribution of income may take the shape of an inverted **U**. During the economic development transition, inequality first rises, then peaks

to basic services should be linked to the country's economic progress and should be anticipated. CINDE's transitions along this continuum resembled movements along Kuznet's curve⁸¹, where the shape of the inverted AU⁸ corresponded to the nature and intensity of services provided in proportion to indicators of raising exports and investment.



Theoretically, the early stages of EIPO evolution in which countries are defining long term strategies and identifying comparative advantages, EIPOs should provide transmitter services: essentially low-cost information which is current and easily available. Likewise, export development activities should be limited to providing low-cost information regarding foreign market potential and access, basic technical training and new technological developments. EIPOs also should begin to provide governments with information about what changes to the environment are required to attract investors. As government policies adjust

and new incentives are created, EIPOs will find their services in demand by the government and private sectors alike, especially to facilitate transactions, locate factory sites, assist with domestic financing requirement, etc. As the environment improves and the country establishes a track record of successful investments, promotional activities will find a more receptive audience and should increase. Simultaneously, export training for domestic producers should increase and sources for export credit identified or created.

Once interest and investor momentum have been established and the country has generated a critical mass of investment, greater social cost-benefit returns may be generated by limiting or scaling back promoter services and by reemphasizing facilitator and transmitter services. During the first two years of an EIPO's operation, usually the policy environment of the developing country is insufficient to sustain an active promotional program. During this policy assessment and adoption phase, transmitter services should dominate with supporting facilitator services being phased into the EIPO's list of services as demand for them increases. The second phase, beginning three to five years after initiation of activities,

and finally falls. In a sense, this pattern may be compared to an ideal sequencing of EIPO operational services mode. [Gillis, Malcolm, *Economics of Development*. New York: W.W. Norton, 1992, pp. 84-93.]

entails **policy stabilization** characterized by the adoption and application of favorable business policies which provide investors with confidence and incentives for increasing investment and export production. Transmitter and facilitator services should be supplemented by active promotional activities once the environment has been created to provide adequate incentives to investors and exporters. As the per capita foreign direct investment and per capita value-added export value reach a critical mass, the need for expensive **promotional** activities should begin to taper off and a focus on facilitation and transmitter services should increase. During this part of the institution's maturation, facilitation services should also concentrate on satisfying the investors that are *already* in-country rather than just focusing on new clients.

CONCLUSIONS

Although CINDE's institutional development has been affected by sporadic leadership, a rapidly changing environment, and transitional problems, its contributions have been unusually successful. Unlike many organizations of its type, CINDE achieved its objectives of promoting export growth, attracting foreign investment and creating a flexible, self-sustaining organization. The economic and political circumstances surrounding Costa Rica in the early 1980s and the specific context in which it began are, perhaps, unique. The political importance attached to Costa Rica by the United States as a result of the Jackson Plan (Kissinger Commission Report) of the early 1980s assured massive inflows of foreign assistance and the accompanying policy conditionality to liberalize the economy. It also gave USAID a significant voice in helping to plan the country's move toward an export oriented economy and in CINDE's creation and subsequent management. Developing countries are not likely to see again, in the near or midterm, such a massive level of assistance from the United States (with the possible exception of assistance to the Newly Independent States of the former Soviet Union). Costa Rica has a relatively sophisticated private sector infrastructure and one hundred years of democratic governance. Many developing countries are struggling with nascent democracy and many only have an underpinning of private sector structures.

Nonetheless, institution development planners should heed the lessons of Costa Rica's CINDE. Despite the unique contextual characteristics of Costa Rica during CINDE's development, the general lessons regarding the dynamics of successful EIPO institution-building may be broadly applicable. That is not to say that CINDE's experiences are easily replicable or even desirable in every case. Rather, the basic influences of the organization's legal framework, internal structures, technical and financial autonomy combined with goals mutually acceptable to government are the common denominators in determining successful EIPO institutionalization.

However unlikely, other developing countries may be faced with circumstances similar to Costa Rica's in contemplating a EIPO design. An autonomous, demand-driven structure should be seen as an essential element of successful EIPO institution-building. But **demand** should include the government's need for the provision of these services, not just those which can recover costs because private users are willing to pay for them. Earning the financial and political support of the central government is equally critical but it is especially difficult because operational and technical autonomy must be maintained and the organization must be insulated, as much as possible, from political influences.

Above all, institutional and government policy objectives must be similar or at least not working at cross purposes. At the same time, the organization must exhibit the characteristics of a competitive provider of services including efficiency, command of market share, risk-taking behavior, entrepreneurship, responsiveness to the environment and innovation. Likewise, private sector input and support are key to

the long term institutional survival of EIPOs. Lacking private sector stakeholders and flexible organizational structures, there is little doubt that EIPO programs will be limited in scope, poorly managed, financially unsound and unresponsive to the real needs of a developing country.

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ANNEXES