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Action Plan

FY 1992-1993

USAID/Costa Rica

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USAID/COSTA RICA

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I. RELATIONSHIP OF THE BUREAU OBJECTIVES AND THE COUNTRY STRATEGY

A. Mission Strategy Statement and Strategic Objectives

The Mission's country strategy for the 1990s is to assist Costa Rica to deepen and expand its base of free market-oriented macroeconomic and trade and investment policies, seeking to complete the transition from high levels of 3oncessional assistance to sustainable and self-reliant international trade and investment relationships.

The strategy builds on the substantial macroeconomic stability and growth gains made over the 1980s, the strength of Costa Rica's democratic processes, and its well developed socioeconomic systems and infrastructure, as attested to by the performance data cited in the Country Performance Table (Part II, Table Two). Given the gains of the last decade, Costa Rica's prospects for achieving self-sustaining growth in the 1990s must be considered good, but are heavily contingent on completing the policy and regulatory reforms and expansion and maintenance of the infrastructure networks associated with three strategic objectives: (1) private sector-led export expansion; (2) streamlined, more responsive government, and (3) preservation and sustainable economic uses of natural resources.

B. Overall Strategy Implementation Plan

Planned U.S. economic assistance levels over the FY 1992-93 Action Plan period are sharply lower than those available over the last half of the 1980s. With the exception of three million dollars for family planning to help complete a transition to financial self-sufficiency in this important program, all assistance will be allocated to activities supporting the three Mission strategic objectives. The policy dialogue will be directed to maintenance of sound macroeconomic policies, and such other continuing policy and regulatory adjustments as are necessary (1) to maintain and expand Costa Rica's market share and competitiveness in areas of comparative economic advantage, and (2) to improve public sector operational and fiscal policies. These two objectives --increased trade and investment and more responsive government-- are closely interdependent, the more so in the strained foreign exchange and domestic financing situation in which Costa Rica will continue to find itself in the early years of the 1990s. Costa Rica's success in allocating its scarce financial resources to keep moving both objectives ahead in the early 1990s is the key to achieving the fuller strategy for the 1990s.

Complementary to the other two objectives is the policy, regulatory and resource package dedicated to the environmental and natural resources (ENR) objective. This program element speaks to the longer term viability and sustainability of all economic and socioeconomic activity. Continued direct U.S. economic assistance combined with debt relief and trade benefits within the framework of the Partnership for Democracy and Development (PDD) and the Enterprise for the Americas Initiative (EAI) announced by President Bush in June 1990 will ultimately expand the resources available for each element of the strategy, will move the U.S./Costa Rican economic relationship further away from concessional aid and more toward expanded trade and investment, and will enable the GOCR to further implement very difficult and potentially sensitive public sector employment level reductions and restructuring. It should be recognized, however, that direct U.S. assistance is likely to decline faster than the benefits of the EAI and PDD become available, thus creating a short to medium term resource gap for the GOCR. It should also be taken into account that as U.S. assistance levels drop, so too may our leverage with the GOCR.

Building on the generally favorable macroeconomic policy framework already in place, the Calderon Administration since taking office in May 1990 has embarked on a course of well-directed but politically perilous fiscal and public sector employment reform measures intended both to arrest dangerous levels of deficit spending and to restore a healthy balance between recurring and capital expenditures. Concurrently, the Calderon Administration is negotiating in the spirit of the PDD to position Costa Rica in the front ranks of Latin American nations prepared to take advantage of the EAI. For example, in early December a bilateral trade and investment framework agreement to lead to a Free Trade Agreement was signed, only the second in Central America. The Mission's resource allocation plans and policy dialogue with the Government of Costa Rica are completely compatible, indeed highly complementary, to ongoing IMF and World Bank activities. This policy synergy among the major donors, including the IDB, is a critical factor in Costa Rica's hopes to access sufficient resources to be able to weather its current foreign exchange and domestic financing problems even as it moves through a further critical stage of policy and government structural reforms.

The strategy envisions modest levels of ESF support throughout the Action Plan period to demonstrate U.S. support for these tough policy actions and to facilitate Costa Rica's full participation in the EAI. As Costa Rica moves to self-sustaining growth, the Mission will maintain a basic level USDH presence (currently estimated as about 10) to assist in the growing area of regional cooperation as well as to provide technical and financial support appropriate to a country approaching ADC status.

C. Mission Strategy Linkage to the CDSS and LAC Objectives

The Mission strategy and strategic objectives as presently stated evolve easily from those in last year's Action Plan and prior documents, including the CDSS update prepared in 1988. The themes of private sector-led economic growth, sustainable ENR management and public sector efficiency remain valid. Perhaps the greatest change over the last several years is the degree to which these objectives have become more progressively attainable. At present there is near complete agreement on the strategy and objectives between the Mission and the Government of Costa Rica. The fit between the Mission strategy and objectives and those of the Bureau is equally good. The Bureau's emphases on (1) growth in trade and investment with diminished reliance on concessional assistance and (2) streamlined, more responsive government precisely mirror Costa Rican intentions and prospects, as does the emphasis on shared world interest in preservation and sustainable economic uses of natural resources.

Annex A to this Action Plan is Table One, the Mission's initial Implementation Workplan detailing the key actions the Mission plans to pursue to ensure progress is made toward attainment of the overall strategy and objectives. This Implementation Workplan is subject to continuing updates to reflect changing or evolving situations. However, in all circumstances, it will continue to adhere to its purpose of defining and tracking all important actions related to the achievement of the established Bureau and Mission objectives. The more important elements of the Workplan are already or will be subsumed into the more general Ambassador's Statement of Goals and Objectives compiled to reflect overall Country Team direction and U.S. policies.

II. PERFORMANCE RELATED TO LAC BUREAU OBJECTIVES

A. Table Two: LAC Performance Ratings Summary, FY 90

Country	Overall Perfom Ranking	Overall Perform (100%)	Macro Policies (50%)	Social Services (20%)	Environ Mgt (10%)	Dem & HR Commit (20%)
Costa Rica	1	82.9	38.0	16.9	8.0	20.0
Jamaica	2	79.7	39.5	16.2	7.0	17.0
Belize	3	77.0	39.5	14.0	5.0	18.5
Panama	4	75.1	39.5	16.6	5.0	14.0
E. Caribbean	5	74.5	35.3	15.2	6.0	18.0
Bolivia	6	74.0	41.0	12.5	5.0	15.5
Honduras	7	72.6	34.4	15.7	7.0	15.5
Colombia	8	70.3	36.1	16.7	5.0	12.5
El Salvador	9	70.2	40.7	12.0	5.0	12.5
Ecuador	10	69.7	32.0	13.7	7.0	17.0
Peru	11	61.1	31.9	11.7	5.0	12.5
Dom Republic	12	56.7	21.2	15.0	5.0	15.5
Guatemala	13	53.9	23.7	11.7	6.0	12.5
Haiti	14	51.4	28.6	11.3	5.0	6.5
Nicaragua	15	49.7	16.0	14.7	5.0	14.0
Guyana	16	46.6	19.5	14.6	3.0	9.5
Eastern Caribbean by Country						
Antigua		60.7	26.1	16.1	6.0	15.5
Dominica		80.5	40.0	16.0	6.0	18.5
Grenada		64.7	27.4	14.3	6.0	17.0
St. Kitts		76.2	36.6	13.6	6.0	20.0
St. Lucía		82.2	41.5	16.2	6.0	18.5
St. Vincent		79.7	40.0	15.2	6.0	18.5

B. TABLE THREE: PROGRAM PERFORMANCE

LAC Objectives	Mission Strategic Objectives	Mission Indicators
Objective I. Support the achievement of broadly-based sustainable economic growth		
SUB-OBJECTIVES A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.	-- Protectionist tax and other incentives favoring import substitution reduced.	--Tariff ceiling progressively reduced from 40% to 25% by the end of 1993 --Grain marketing substantially handled by private sector by mid-1994
	-- Trade procedures liberalized.	--Application of import tax exonerations progressively reduced over AP period.
B. Encourage a vigorous response by the private sector to a favorable policy environment.	-- Private investment increased	--Continued annual growth of NTE by 10-15% over AP period. --Annual level of AID-assisted investment in new NTE activities of $175 million.
C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.	-- Enhance access to resources needed by the disadvantaged in order to participate actively in the economy	--Return non-financial public sector investment levels in economic and social services, from 2.9% of GDP in 1988 to 4.5% of GDP in 1993. --Retain critical mass of meaningful social sector outputs benefiting the disadvantaged, including: . 100% of family planning financing covered by GOCR and Costa Rican private sector service providers by 1995. . Substantial progress over the Action Plan period toward effective capitalization for PVO-administered microenterprise leading programs. . 300 Costa Ricans sent to U.S. for training (220 short-term and 80 long-term) for FYs 91-93.

LAC Objectives	Mission Strategic Objectives	Mission Indicators
D. Encourage preservation and sustainable use of the natural resource base.	--Sustainable use practices adopted in ecologically vulnerable areas	--Ratio: area deforested to area reforested decreases from 3:1 to 1:1 by 1993.
		--A minimum of 10 communities managing their micro-watersheds and water systems in critical upland watershed areas by end of 1993.
		--At least 7,000 hectares managed according to officially approved forest management plans by 1993.
	--Establishment of an environmental/natural resources and economic policy environment which fosters sustainable development and preservation of ecologically vulnerable areas.	--Complete legal framework of National System of Conservation and the administrative framework also in place and beginning to operate by end of 1993.
OBJECTIVE II. Support the evolution of stable, democratic societies		
A. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens and investors.	--Increased role of private sector in provision of public goods and services	--Size of public sector wage bill reduced from 11.7% of GDP in 1990 to 10.6% by 1993.
	--Ability of executive branch to impose fiscal accountabilty improved.	--GOCR deficit reduced from 5.1% GDP in 1990 to not more than 1.5% in following years.
		--Rationalization of pension systems to assure financial viability in 1993.
	--Effectiveness and strength of legislative branch improved.	--Executive and Asamblea decision/ budget coordination improved.
	--Strengthened rule of law via better trained judges and prosecutors and accurate, widely available legal information system.	--Judicial School and Legislative Reference System fully supported in GOCR justice sector budgets by 1992

LAC Objectives	Mission Strategic Objectives	Mission Indicators
B. Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non governmental bodies, including the press, community organizations, labor unions, and business associations.	None	None
OBJECTIVE III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies		
A. Contribute to the formulation and implementation of USG strategies for dealing with issues of particular, concern, such as drugs, terrorism, and environmental degradation.	None	None
B. Support USG foreign policy initiatives that can benefit from AID resources and expertise, such as disasters, epidemics, and resettlement of displaced persons.	None	None

C. Program Performance Narrative

Introduction

In the spirit of the revised Action Plan's increased emphasis on measuring program impact rather than project outputs and to complete the transition of attention to the reformulated LAC Bureau objectives, this section reports on performance over the last year against the LAC objectives as presently stated. The Mission is pleased to note this exercise has not proven too difficult nor disruptive as the Costa Rica program was already well into a much similar transition to the 1990s. In this scenario, Mission planning reflects an activities mix and resource allocations dictated by the evolving nature of the program as Costa Rica moves closer to self-sustaining growth and concessional aid levels decrease. Maximum impact on the three Mission strategic objectives is sought over this Action Plan period while there is still an adequate level of ESF balance of payments assistance to help with foreign exchange and domestic financing shortages that are expected to remain critical over most if not all of the Action Plan period.

1. LAC Objective I - Support the Achievement of Broadly-Based Sustainable Economic Growth.

a) Accomplishments During the Political Transition. (Sub-Objective A) The last year was a particularly important one in accomplishment terms against LAC Objective I. On February 4, following eight years of Social Democratic administrations, the Christian Democratic party won the Presidency and a slim majority in the Asamblea (Costa Rica's unicameral legislature). Despite the lame duck period between February and the inauguration on May 8, a considerable amount of progress was made. The most visible highlight was completion of final details and terms for the $1.8 billion commercial debt buyback. Through the FY 1990 ESF program the U.S. contributed $33 million to the $205 million needed to complete the deal. This debt was bought back at some sixteen cents on the dollar and eliminated a serious obstacle to Costa Rican economic development and eventual restoration of its external credit worthiness. Nevertheless, Costa Rica still carries a high service burden in official debt, totalling $2.9 billion and representing almost 60 percent of GDP.

b) Strengthening the Policy Dialogue. (Sub-Objective A) Less immediately visible, but also important and successful were Mission initiatives to provide orientation and transition assistance to the new Administration in understanding the economic challenges ahead and formulating appropriate policies. Private individual briefings and one to the entire new cabinet allowed them and Mission personnel to forge valuable understandings and working relationships. A Mission-sponsored three-day international economic conference in late March brought together top Costa Rican and world experts to review Costa Rican economic performance in recent decades and to discuss what the policy agenda should be for the 1990s. This major program evaluation provided the new leadership not only the best advice available, but a credible forum to launch its economic reform program and to achieve public acceptance for it. This was particularly useful given the need to be able to justify walking away from much of the highly populist rhetoric of both parties in the election period. U.S. resource and technical assistance contributions in this critical transition period helped ensure a continuation and even a strengthening of sound policies.

c) The Austerity Program. (Sub-Objective A) The Mission's policy dialogue has played an important part in the Costa Rican Government's proposal to the IMF, under which the Calderon Administration has undertaken an extraordinarily difficult package of price hikes, wage restraints and reductions in public sector expenditures and employment levels, with a combined deficit reduction impact some four times the recently concluded U.S. budget

cuts. A 1990 fiscal deficit inherited from the prior Administration and running at 7.1 percent of GDP at mid-year has been cut to slightly more than five percent, and a plan to bring it to I to 1.5 percent in 1991 has been accepted by the IMF as a key component of a pending new Stand-By agreement. Success in this is also critical to continuing World Bank disbursements under SAL II and to negotiating terms for a SAL III centered on improving Costa Rica's long term trade and investment prospects.

d) Private Importation of Grains. (Sub-Objective A) In mid-November 1990, after several years of progressively tighter PL-480 self-help conditionality, the GOCR completed action to allow private sector traders to import directly yellow corn, effectively ending a forty year old state monopoly over the importation and marketing of basic grains. To clear the way for participation of private traders in this important segment of the grain market, the GOCR eliminated all import licensing taxes and other non-tariff restrictions. Subsequently, two groups of private traders contracted to import 28,000 metric tons of yellow corn for December delivery. These actions are expected to translate into generally lower animal feed prices and lower consumer prices for related products. They should also benefit U.S. agricultural exports.

e) Continued Private Sector-Led Economic Growth. (Sub-Objective B) Under the impact of low foreign exchange reserves, the ongoing fiscal crisis at home, external conditions, and reduced public sector spending, economic growth for 1990 is expected to be in the range of 3 to 4 percent, down from 5.7 percent for 1989. Despite these pressures, the new Administration followed through with a previously planned $27 million initial commitment of ESF-related HCOLC to a fund (FUNDEX) to support an expanded private sector-directed investment and export development program. The value of nontraditional exports (NTE) grew by 20 percent during 1990. The Mission is working closely with key high level GOCR officials and private sector leaders in the development of a policy agenda for the FY 1991 ESF cash transfer, which addresses tariff reductions and improvements in the investment climate. Additional resources are being allocated to a package of activities, including sector evaluations and studies of past efforts, leading to a Spring of 1991 national level conference for trade and investment policy similar to that held in 1990 for general economic policy. All of this is being carefully coordinated with World Bank officials working on the SAL III proposal which will also focus on trade and investment. Also during 1990, the Mission reached agreement with the new Government to go forward with the Financial Services Project. The project has been designed to further deepen the Mission's long-standing dialogue on financial sector reform as well as to assist the Central Bank to establish a system of prudential supervision for non-bank financial institutions, principally cooperatives and credit unions.

f) Accelerated Opportunities for Historically Disadvantaged. (Sub-Objective C) Perhaps the most important Mission initiative toward this sub-objective, from a longer term systems sustainability point of view, is the policy dialogue and conditionality aimed at solving the current very serious fiscal difficulties and restoring a viable balance in government spending between recurrent and capital costs. In this sense, Mission activities here pertain as well to fiscal sub-objectives of LAC Objective I and the strengthened government operations sub-objective of LAC Objective II directed at broader sharing of the benefits of growth.

Existing data indicate that the lower two deciles of income earners have benefited proportionally more than other groups from the growth of the 1980s. There is no doubt about the continued national commitment by all parties in Costa Rica to equity issues, but there is also little doubt that lack of investment in national socioeconomic support systems (education, health and communications networks) in recent years is impacting adversely across the board and logically more so on the least advantaged groups. Modest Mission resource allocations (both dollars and HCOLC) in community development, school refurbishment, housing, training and family planning, albeit modest, have been particularly helpful in partially offsetting this effect.

g) Environmental and Natural Resources (ENR) Management. (Sub-Objective D) In 1990 measurable and meaningful progress has been made in a number of ENR activities.

-- The BOSCOSA OPG has initiated management of 450 hectares of forest lands through community-based plans. This project is also about midway through a year-long ecological assessment inventorying the biodiversity of the Osa Peninsula.

-- The Tortuguero Project completed a land-use regulatory plan for the areas surrounding the Tortuguero National Park and has trained local residents to serve as guides and custodians in the park and beach areas.

-- With the Cordillera Development Foundation (CDF) now established and staffed and Price Waterhouse putting in place accounting, administrative and personnel policies and procedures, the FORESTA project is underway. For 1991, the CDF will initiate its first annual workplan to undertake basic repairs and upgrading activities for three major national parks.

-- Resulting from prior Mission efforts, a new law was put into effect in 1990 allowing private power producers to sell power to the public utility company. As a first result, the El Viejo sugar refinery will be selling cogenerated power this harvesting season. ACOPE (the Association of Small Energy Producers) has been formed to promote further activities under the new law.

-- Mission policy design efforts for the FY 1992 ESF program center on further developing the legal, regulatory, institutional and resource base for the ENR sector.

2. LAC Objective II - Support the Evolution of Stable Dernocratic Societies

The Mission views this objective as inclusive of a broader theme of good government in addition to the more commonly mentioned democracy sector themes of electoral, judicial and legislative improvements. As such, there are close linkages to the fiscal policy sub-objectives in LAC Objective I. However, by placing Mission strategic objectives here, the Mission wishes to make a clear distinction between the economic and equity considerations of LAC Objective I and the size and responsiveness of government sub-objective sought here.

a) Public Sector Restructuring. (Sub-Objective A) With significant help from the Mission through programming and reprogramming of host country owned local currency (HCOLC) associated with dollar cash transfers, the Calderon Administration has begun to shift government operations from Costa Rica's traditional emphasis on big government and state intervention to a leaner and more responsive public sector and greater reliance on cost saving private sector provision of goods and services. An HCOLC financed program to help reduce public sector employment by 7,000 positions by June is the most visible Mission contribution to GOCR public sector restructuring thus far.

b) Pension Reform. (Sub-Objective A) Planning for pension reform, another key element in public sector restructuring and cost containment, is also progressing satisfactorily and 1991 may see implementation of important measures in this respect. Key public and private sector policy and opinion makers participated in a number of Mission-sponsored studies and observation trips in 1990 aimed at researching options for GOCR pension reform. Mission-sponsored technical assistance included the drafting of a new law (soon to be submitted to the Asamblea) and six Executive decrees aimed at simplifying the highly complicated public sector pension systems (19 in all). Another draft law looks at the viability and integrity of private sector pension systems.

c) Justice Sector Improvement. (Sub-Objective A) During 1990 the Mission-supported reorganization and expansion of the Judicial School of the Supreme Court took hold firmly. The recent elevation to the Supreme Court Presidency of the magistrate leading this effort is helping to assure that the judicial branch includes the full operating costs in its budget by 1992. The Laws-in-Effect reference system located in the Attorney General's office is progressing on schedule for an FY 1992 startup.

d) Legislative. (Sub-Objective A) Training seminars for the Asamblea professional staff continued through 1990 and the dialogue on a possible longer-term project to address the need for management and operational modernization has progressed to the point where an FY 1992 startup looks feasible.

3. LAC Objective III - Country Team and International Donor Cooperation

While the Mission lists no specific strategic objectives or indicators under this LAC objective, the spirit of the objective is covered in several ways. The Mission cooperates closely with all other USG Country Team elements in areas of shared interest and, where feasible and permissible under the FAA, is also supportive in resource terms. Such actions are included under the more general Ambassador's statement of goals and objectives. In particular, coordination includes economic, environmental, and trade and investment policy considerations. Most recently, a bilateral trade and investment framework agreement has been signed. Considerable Country Team attention over the Action Plan period is to be focused on trade and investment policy and practices more generally.

The Mission has also been an active and important player in the Country Team's effort to bring to successful conclusion ten long-standing expropriation cases involving American citizens. Over the past year, the first two cases were successfully resolved and paid by the GOCR. The Calderon Administration has continued to move forward in this area with the recent establishment of a process of domestic arbitration for the balance of the expropriation cases.

Additionally, the Mission provides support to important functions of other USG and A.I.D. units with regional and international outreach, such as the Department of Agriculture, the Office of Foreign Disaster Assistance (OFDA) and the Regional Offices for Central America and Panama (ROCAP). The Mission also provides selective support for broader USG drug prevention programs.

Given Costa Rica's advanced democracy and socioeconomic structure, coordination with other donors is focused principally on a shared economic policy agenda and specific associated resource allocations which are covered under LAC Objective I.

Finally, the Mission is playing an integral role, together with the Embassy Political and Economic sections, in promoting the GOCR's positive participation in and support of the EAI and PDD.

III. NEW PROGRAM INITIATIVES

A. Overview Statement.

Based on current strategies and plans, the Mission will design five new projects and one amendment in 1992, and two new projects in 1993. The Mission would also like to be responsive to at least one appropriate PVO activity each year and will hold open reprogramming options for up to one million dollars each year for this purpose.

Activities proposed for funding over the Action Plan period reflect Bureau and Mission strategic objectives: private sector-led economic growth, sustainable ENR management and public sector efficiency. Population Sector Consolidation (515-0261) is intended to be the last input in this sector and is directed to attainment of cost self-sufficiency in the program. Two projects are initiatives which further the effective participation of the private sector in the provision of public services (Solid Waste Management, 515-0264 and Private Power Generation, 515-0259). The Natural Resources Sector Development Program (515-0260) focuses on effective and consolidated management of Costa Rica's public-owned natural areas. Two initiatives seek to deepen and extend progress made to date in public sector reforms (Policy and Training Support, 515-0241 and Public Sector Responsiveness Program, 515-0268). Finally, the Legislative Support Project (515-0267) is a new initiative complementary to ongoing efforts to improve public sector operations. Following is a listing of FY 1992 and FY 1993 intended new starts or amendements.

FY 1992 PROJECTS

Policy and Training Support (515-0241) Amendment	LOP - $ 7,000 PSEE (G) (This amendment $2,000)
Natural Resources Sector Development Program (515-0260) New	LOP - $26,000 ESF (G)
Pop. Sector Consolidation (515-0261) New	LOP - $ 2,000 POP (G)
Training for Development (515-0263) New	LOP - $ 5,000 EHR (G)
Solid Waste Management (515-0264) New	LOP - $ 1,675 ARDN (G)
Legislative Support (515-0267) New	LOP - $ 3,000 PSEE (G)

FY 1993 NEW PROJECTS

Private Power Generation (515-0259)	LOP - $ 1,075 PSEE (G)
Public Sector Responsiveness Program (515-0268)	LOP - $26,000 ESF (G)

B. FY 1992 Initiatives:

These project starts are critical efforts to help Costa Rica enhance its public sector responsiveness; consolidate management and financing of its national protected areas; enable public and private institutions to responsibly provide effective family planning services; deepen its human capital base in critical policy level, technical and managerial skills; reverse environmental degradation through effective solid waste management; and to solidify and upgrade the organizational functions of the national legislature.

The proposed amendment to the Policy and Training Support Project (515-0241) will include continued technical assistance and training in programs dedicated to Labor Mobility from the public to the private sector, reform of the current financially unsustainable public sector pension system, review and revision of the national budgeting system, and deepening of the ongoing reform programs in the National Customs Service and Controller General.

The Natural Resources Sector Development Program (515-0260) will consolidate the management and funding mechanism of Costa Rica's protected areas which now suffer from burdensome administrative and budget structures. This sector program will implement the joint GOCR/Mission strategy for integrating forestry, agriculture and wildlands management in the major protected areas and buffer zones, and complement the resources expected under the EAI debt reduction program.

The Population Sector Consolidation Project (515-0261) will be a follow-on project to the successful Family Planning Self-Reliance Project (515-0168). It will strengthen the institutional foundations and financial practices that lead to longer term cost sustainability and financial independence. This is expected to be the last major bilateral population project in Costa Rica.

The Training for Development Project (515-0263) will work to deepen the human capital talent base to support policy-based reforms and growth-oriented policies over the 1990s and beyond. Costa Rican leaders will need to take further steps in trade and investment policies and practices to remain competitive in world markets and to encourage investment. Also, they will have to shift government operations from Costa Rica's traditional emphasis on big government and state intervention to a leaner and more responsive public sector and greater reliance on private sector provision of goods and services. Training opportunities to be made available under this project will focus on these two and similar national policy-based objectives. In effect, this project will help train the generation of leaders and policy makers who will guide the country into the next century.

The proposed Solid Waste Management Project (515-0264) is an intervention which will assist a consortium of municipalities to contract services of private firms for solid waste collection, and sanitary landfill construction and operation. The project will also establish a preinvestment fund by which other municipalities may obtain funding for planning similar waste management projects.

The Legislative Support Project (515-0267) focuses on assisting the National Congress through a diagnostic study to develop a new operational model and associated infrastructure adequate to the challenges of examining national policy issues, efficiently identifying, considering and selecting options, and transforming these into clear and concise laws.

C. FY 1993 Initiatives:

These proposed projects address the need to solidify gains in some areas and extend efforts in others. One project start is planned to support Costa Rica's increasingly evident need for sufficient electrical power for both industrial production and household uses. The other is a balance of payments program with local currency generations being used to foster further public sector reform.

The proposed Private Power Generation Project (515-0259) is intended to provide a financing mechanism for power generation by the private sector and technical assistance for load management improvements to increase power use efficiency.

The Public Sector Responsiveness Sector Program (515-0268) will provide balance of payments support. Associated local currency will be programmed to finance improved policy formulation and application in the public sector, particularly in support of efforts identified under the Policy and Training Support Project (515-0241), including Labor Mobility, Pension Reform, Budget Reform and Customs Reform.

NEW PROJECT DESCRIPTION FOR FY 1992

B. Project Title: Policy and Training Support (PATS) - Amendment

Project No.: 515-0241

LAC Bureau Objective/Subobjective:

Objective I: Support the achievement of broadly-based sustainable economic growth.

Subobjective A: Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.

Funding: ($000) FY 1992: $725 (G) Increase in LOP: $2,000 (G)
Total LOP: $7,000 (G)

Functional Acct.: Private Sector Energy and Environment (PSEE)

A. Consistency of project with Mission strategy: This amendment provides the programmatic structure and coherence to a series of activities that support the Mission strategy through their impact on the ability of key public sector institutions to support the efforts of trade liberalization and to achieve improved economic growth, while maintaining important social programs intact.

B. Relationship to AID and other donor activities: This project complements the covenants and conditionality of the ESR agreements, and provides the necessary technical assistance and training activities required to make operational many of the required changes that the GOCR seeks to achieve. IMF conditionality related to a reduction of the fiscal deficit reflects a concern in this area, and the World Bank follows suit, with plans for a $40 million loan for the restructuring of the agricultural sector. No other donor has specifically targeted technical assistance for pension system reforms, budget reforms, or the labor mobility program. IDB has a grant, to be implemented through the OAS, for technical advisors for customs in specific task areas.

C. Relationship to policy objectives: This effort enhances the participation of the private sector in the provision of appropriate goods and services. More effective government services enhance the Costa Rican participation in the world economy.

D. Project description: The goal of the project is to support Costa Rica's program of sustained economic expansion and the spreading of the benefits of this expansion. The purpose is to assist investment and export initiatives in support of the private sector; improve policy formulation, planning and design; and support reforms of public sector management/administrative system in Costa Rica through the provision of technical assistance and training.

Specific areas of focus include technical assistance and training for programs dedicated to labor mobility from the public to private sector, reform of the current overentitled public sector pension systems, review and revision of the current public sector budgeting system, and a deepening of the ongoing reform program in the National Customs Service.

Labor Mobility: This activity provides technical assistance to the operational aspects of physical restructuring of public entities along lines that their institutional objectives and modernization demands require. These institutions, or parts of institutions, are designated by the GOCR, as necessary for restructuring, and alternatives are explored to rationalize the actions required by each institution. These actions may include privatization, internal system improvements, reduction of programs, personnel realignment by technical functions, and others. This activity is expected to have a positive impact on the fiscal deficit.

Pension Reform: This technical assistance is aimed at another source of severe fiscal deficit concerns, as many of the public sector pension systems are non-contributive, and must be financed through general governmental revenues. The general objective of the pension reform is to eliminate the pension-caused fiscal deficit and assure future generations of their right to receive a pension. The specific objectives of the pension reform are to unify the public sector systems under the regulation of CCSS/IVM (Social Security Pension System); to eliminate the incongruency of the overentitled and underfunded special pension systems of the public sector; and to regulate the private sector initiative of the voluntary pension system.

Customs Reform: This effort is being done in coordination with IDB advisors, and consists of a deepening of the improvements begun in 1989. Emphasis is placed on the computerization of the customs operations, expanding the system to the periphery, and concentrating on facilitating exports. The entry of Costa Rica into the GATT implies many operational changes for which the GOCR is unprepared. Greater emphasis will be placed on international linkages with customs commissions on values, computer software, classification, etc. Training of employees will be reinforced. This project will also continue to assist the Customs Service modernize and automate its operations.

Budget Reform: The objective of this initiative is to develop a programming and budgeting system in the Ministry of Finance (MOF), Ministry of Planning (MIDEPLAN) and the Office of the Controller General (OCG). Activities will include in-country training on program and project analysis, accounting and budgeting principles to a large number of GOCR employees. Technical assistance will help define appropriate budgeting procedures to make the Executive Branch more accountable, and to decrease the ex-ante involvement of the OCG. Managerial level accounts and reports will be developed to help support the decision making process at the highest levels in government ministries.

Amendment Financial Plan:

Technical Assistance	960,000
Commodities	600,000
Training	440,000
TOTAL	$2,000,000

E. Planned Implementation arrangements: The technical assistance and training will be by AID direct contract.

The first line counterpart entity is the Ministry of the Presidency. In addition to the Ministry, other GOCR entities using the coordinative facility of the Ministry of the Presidency's Office of Control and Follow-up (OCS), will be provided direct access to the Project's resources.

F. Sustainability: The specific interventions in terms of technical assistance and training are expected to provide a group of trained individuals in different technical fields, and operational systems that will be functioning with greater effectiveness and efficiency. The activities that are financed are not in themselves expected to be sustainable, with the exception of the installation of a training capacity for the budgeting procedures, which must be continued on an annual basis.

With respect to Pension Reform, the changes in legislation and the design of new regulations will support the sustainability of the pension system over the next ten years. The implementation during 1991 of the Labor Mobility Program will lay the basis for the GOCR to continue reducing public sector employment during the next three years. The deficit reduction impact of these reforms will have a positive effect on the national budget, helping assure sustainable economic growth.

G. Amendment Approval: USAID/Costa Rica requests that the Bureau authorize the Mission Director to approve the proposed amendment to this project.

NEW PROGRAM DESCRIPTION FOR FY 1992

C. Project Title: Natural Resources Sector Development (FY 1992 new start)

Project Number: 515-0260

LAC Bureau Objective/Subobjective

Objective I: Support the achievement of broadly-based sustainable economic growth.

Sub-Objective D: Encourage preservation and sustainable use of the natural resource base.

Funding: ($000) FY 1992: $26,000 (G) LOP: $26,000 (G)

Type of Funding: Economic Support Funds (ESF)

A. Consistency with Mission strategy: This program addresses the preservation and sustainable economic uses of Costa Rica's remarkably rich but endangered biosphere, one of the three main objectives of the Mission strategy.

B. Relationship to AID and other donor activities: Natural resources and the preservation of biodiversity are high priority areas for both the GOCR and international donors. The Calderon administration emphasizes the importance of PVO participation and actively solicits outside resources to augment local availabilities. The IDB is planning a $30 million loan for ecotourism for 1992. The Dutch, who have been involved in debt-for-nature swaps in the past, are committed to supporting conservation efforts on the ecologically important Osa Peninsula. The Swedes continue to support activities on the Caribbean littoral and in the Talamanca area.

C. Relationship of project to overall AID policy objectives: Recently the A.I.D. Administrator announced a new Agency Environmental Initiative to provide direction to all of A.I.D.'s environmental activities. The initiative outlined three broad areas for Agency interventions: (1) sound environmental and economic policies; (2) institutional development; and (3) technology generation and commercialization. The first two global issues are to be addressed by all bureaus and the third is directed toward region-specific priority areas. The four priority areas for the LAC Region are: sustainable agricultural production; tropical forests and biological diversity; watershed management; and coastal zone management. The proposed project deals with all three of the Agency-wide areas of intervention and the tropical forests and biological diversity focus of the late region priorities.

D. Program description: The purposes of the program are to provide balance of payments support to stabilization efforts in Costa Rica, and to provide the policy and financial support necessary for consolidating approximately 93 national and private protected areas into eight regional conservation units (RCUs) under a national system of conservation areas. The dollar grant to be signed with the Government of Costa Rica, will consist of a cash transfer to a separate uncommingled Central Bank account to finance private sector imports from the United States of eligible raw materials, capital goods and other productive inputs. Local currency in an amount equivalent to the grant will be deposited by the Central Bank in a special account to finance natural resources sector development activities acceptable to A.I.D. and the Government of Costa Rica.

Currently Costa Rica has a myriad of public and private protected areas including national parks, wildlife reserves, forest reserves, protection zones, monuments, and recreation areas. Also constraining the responsible agencies are lean budgets, an underpaid and undertrained workforce, and a complex set of laws and regulations governing the ENR management sector. This program will deal directly with strengthening and financially supporting, through an endowment-like fund, the responsible public and private institutions that are charged with the management and conservation of Costa Rica's unique biodiversity. A significant amount of the host country-owned local currency (HCOLC) associated with ESF dollar balance of payments grants made under this program will be used to improve park infrastructure, train park guards, and support both Costa Rican and international PVOs working in ENR activities.

Direct beneficiaries of the local currency generation will be people living in and around the protected areas and the PVOs involved in the program. Longer term beneficiaries will be the people of Costa Rica as well as neighboring countries and visitors, all of whom will benefit from a better maintained and smoother functioning protected area system.

Major outputs: The major accomplishments of the support provided to the natural resource sector include the establishment of a national system of conservation areas, the development of policy guidelines for PVO participation in the management and protection of national protected areas, the establishment of an HCOLC endowment fund, and the creation of a coordinative mechanism with other donors for ENR activities.

E. Planned implementation arrangements: The program will be obligated by a Handbook 3 agreement and will work with the Central Bank of Costa Rica. The Mission will work closely with the Ministry of Natural Resources, Energy and Mines to develop the performance criteria for local currency disbursements for the agreed-upon activities.

F. Sustainability of proposed activities: It is anticipated that an environmental fund, as allowed and described in recent legislation for the Enterprise for the Americas Initiative (EAI), will be established by the program and augmented with interest payments from PL 480 debt forgiveness. This Program's local currency generations will be the initial increment to the fund which will be complemented by other donor contributions and other financing arrangements like EAI This, combined with increases in park fees and participating PVOs' own resources will lead to longer term financial sustainability.

G. Mission management role: A USDH project officer from the Project Development Office will be responsible for official supervision of this program and coordination with appropriate host country public and private entities.

H. Potential issues and/or innovative program approaches: A performance-based disbursement mechanism for the local currency will be employed under this project. The grant document will establish benchmarks upon which to judge implementation progress. As each benchmark is achieved, A.I.D. will agree to disbursement of additional funds from the special account based on an implementation and disbursement schedule established in the assistance agreement.

I. Concept Paper and PAAD Approval: USAID/Costa will submit the Concept Paper to the Bureau for review, with the delegation of PAAD approval to be decided at that time.

NEW PROJECT DESCRIPTION FOR FY 1992

D. Project Title: Population Sector Consolidation Project

Project Number: 515-0261

LAC Bureau Objective/Subobjective:

Objective I: Support the achievement of broadly-based sustainable economic growth.

Subo ective C: Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.

Funding: ($000) FY1992 $1,000(G) LOP: $2,000(G)

Type of Funding: Population (POP)

A. Consistency of project with Mission strategy: This project is consistent with Mission efforts to transfer full responsibility for well-established programs to the implementing entities in both the public and private sectors. It focuses on the institutionalization of the family planning programs, especially the transition to domestic financing for the provision of family planning commodities, clinical services and information to the Costa Rican population.

B. Relationship to AID and other donor activities: This will be a follow-on project to the successful Family Planning Self-Reliance Project (515-0168), and will strengthen the institutional aspects that lead to sustainability, without provoking a deterioration of services. This is expected to be the last major bilateral population project in Costa Rica. UNFPA is currently financing the an Integrated Adolescent Health Services program (1989-92), which focuses on services and educational approaches to the young adult population, and is complementary to this AID project.

C. Relationship to AID policy objectives: Costa Rica's moderately high population growth rate (2.4 percent) continues to impact negatively on the environment, and on the ability of the GOCR to keep up with the provision of sufficient and adequate social services. The population variable will continue to be a part of policy dialogue, although not in the sense of demographic targets, due to political sensitivities.

D. Project description: The goal of the project is to improve the socioeconomic status of the Costa Rican population. The purpose is to enable public and private institutions to successfully and responsibly provide effective family planning services, commodities and information to the Costa Rican population, in concert with the General Health Law, and GOCR policy statements. The problem to be addressed is the control of fertility by the individual, and the aggregate societal needs in terms of population growth. Despite impressive improvements in services to the population, important areas remain to be addressed systematically. Statistics point to large numbers of births to mothers under twenty years of age (20% of births), inadequate birth spacing, and large numbers of births declared to be unwanted, or mistimed (42%). The nearly complete dependence of ongoing population programs on donor-supplied contraceptives is of great concern, as AID currently supplies 100% of condoms and IUDs, and 60% of oral contraceptives to the public sector program, which covers 75% of the women that use contraceptives. AID, IPPF and UNFPA have donated contraceptives to Costa Rica over the past 20-25 years, effectively undermining the weak private commercial market. The gains in contraceptive prevalence (70% of women in union) could plummet due to lack of commodities, if a concerted effort is not made to strengthen the institutional budgeting, procurement and distribution systems for contraceptives.

Project components: For the public sector, contraceptive commodities will be provided according to an established reduction/substitution plan until 1995. Some technical assistance may be provided through a complementary logistics management project funded by ST/POP. The communications program will be continued and fortified, with funding for mass media and a variety of print and audio/visual materials to support the transmission of important concepts. It is expected that the Caja Costarricense de Seguro Social will cover the full administrative costs of the program, and that the project will fund only direct project costs.

For the Contraceptive Social Marketing program, PROFAMILIA will receive a final donation of contraceptives, and support for the promotional/informational costs of the program. It is expected that the Grantee will cover the administrative costs of the program, and that project funding will cover only direct costs. A seed grant program is expected to provide funding for start-up costs for small alternative programs that will not require recurrent cost support. Contraceptives will not be donated to these programs. It is anticipated that PROFAMILIA will have forged sufficient commercial linkages to be supplying the local market with a variety of low-cost contraceptives by 1994. As in all family planning programs, women will be the prime beneficiaries, and it is anticipated that women will also be involved in the execution of seed grants.

Financial Plan:

Public Sector	
Local costs	$500
Commodities	$500
Private Sector Programs	
Local costs	$600
Commodities	$400
Total	$2,000

E. Planned implementation arrangements: A Handbook 3 Grant agreement will be signed with the CCSS for the public sector activities. The CCSS has experience with several AID projects, and procurements are anticipated to be small, and in-country, essentially for communication pieces. All contraceptive procurement with Project dollar funds will be via on OYB transfer to ST/POP. A Handbook 13 Grant Agreement will be signed with PROFAMILIA, which is anticipated to continue its ongoing relationship with the advertising and distribution companies. Procurements will be limited to minimal shelf item purchases. Seed grants may be sub-granted by PROFAMILIA, with Mission approval, and will be for less than $25,000 each.

F. Sustainability of proposed activities: The GOCR health institutions already finance about 75% of service delivery costs. The project, by gradually increasing the demand, will seek to increase commercial alternatives available for purchase by the public sector or the individual consumer and to ensure that there are no breaks in the contraceptive supply network. As concrete commercial relationships are established by PROFAMILIA for the long-term provision of low-cost contraceptives in the commercial marketplace, its long-term viability will be assured.

G. Mission management role: As this is a follow-on effort with entities with proven implementation capabilities, the Mission managerial burden is not anticipated to be heavy. At present, one USPSC devotes about 40% of her time to project management of the two agreements with these same entities.

H. Potential issues and/or innovative program approaches: The transition plan has been broached with the GOCR and has been accepted. PROFAMILIA has a very lean management team and has been working towards self-sufficiency since the program was initiated. No major issues are anticipated.

I. PID and PP Approval: USAID/Costa Rica requests that the Bureau authorize the Mission Director to approve the PID and PP for this project.

NEW PROJECT DESCRIPTION FOR FY 1992

E. Project Title: Training for Development (FY 1992 new start)

Project Number: 515-0263

LAC Bureau Objective/Subobjective

Objective: To support the achievement of broadly-based sustainable economic growth.

Sub-Objective: To encourage a vigrorous response by the private sector to a favorable policy environment.

Funding: ($000) FY 1992: $1,000 (G) LOP: $5,000 (G)

Type of Funding: Education/Human Resources Functional Account (EHR)

A. Consistency with Mission strategy: This project supports the Mission's commitment to economic development through a strengthened private sector and a more efficient public sector, principal elements in its strategy for sustainable economic growth.

B. Relationship to AID and other donor activities: This project complements the Mission's programs that seek to institutionalize rational reform of economic policies, support private sector-led growth, and improve government responsiveness. Where feasible, this project will be implemented in coordination with similar programs of other donors.

C. Relationship of Project to overall AID policy objectives: Because this project will strengthen selected elements of the private sector; because it will train certain members of the public sector in areas and issues which have a direct impact on exports and tourism, and because the training of some of "the next generation of economists" is contemplated under this project, Training For Development is thoroughly consistent with the overall AID and Mission policy objective of achieving broad-based, sustainable economic growth through a vigorous private sector and an active, informed public sector.

D. Project description: The purpose of this project is to deepen Costa Rica's human capital base in critical policy level, technical and managerial skills needed to 1) advance national economic policy restructuring and market responsiveness, and 2) shift the structure of government operations to a more fiscally sustainable and responsive basis.

With substantial assistance from the U.S. under the Central America Initiative (CAI), Costa Rica in the 1980s recovered from a major economic recession, carried out an extensive package of macroeconomic reforms, shifted from an import-substitution economic model to a more market-determined one, and generally set the stage for continued broad-based and sustainable growth. As the 1990s begin, Costa Rican leaders are working to extend the reform programs to include two very important additional sets of changes. First, they seek to take further steps in trade and investment policies and practices as are needed to remain competitive in world markets and encourage investment; second, they seek to shift government operations from Costa Rica's traditional emphasis on big government and state intervention to a leaner and more responsive public sector and greater reliance on private sector provision of goods and services.

Accordingly, the training opportunities to be chosen to participate under this project will focus on advancing these two national objectives. They will include, for example, such elements as post-graduate courses and fellowship programs in economics and trade and investment policy and practices at prominent centers of learning; national accounts and auditing systems; management of public diplomacy for fiscal and other government reform efforts; and related observational tours, seminars, and conferences.

The selection of training opportunities will closely reflect the objectives of the major U.S. development inititatives for the 1990s in Latin America, i.e., the Enterprise for the Americas Initiative (EAI) and the Partnership for Democracy and Development (PDD). Activities will be both formal and non-formal and of differing lengths of time, depending on the availability of the trainees themselves and the willingness and ability of their institutions to free them temporarily from their responsibilities.

Women will be identified as participants in the different training programs wherever their qualifications and career histories render their selection feasible. In Costa Rica women can and do attain university-level educations and are active mid- and upper-level managers in both the public and private sectors. Therefore, ample participation of women in this project is expected.

Financial Plan:

Trade and Investment	$2,000
Public Sector Reform	2,000
Project Administration	750
Miscellaneous	250
Total	$5,000

E. Planned implementation arrangements: Because the project will contain both in-country and U.S.-based training activities, the Mission may contract with an appropriate institution for the implementation of the training activities, under Mission guidance. This issue will be vetted and a final decision made during the preparation of the Project Paper.

F. Sustainability of proposed activities: Sustainability for this training project applies only in terms of the continued long-term influence and impact of the trainees themselves on their particular sectors and on national performance.

G. Mission management role: A USDH project officer from the General Development Office/Training Division will be responsible for official supervision of this project and coordination with appropriate host country public and private entities. A Personal Services Contractor will be responsible for day-to-day monitoring and project management functions.

H. Potential issues and/or innovative program approaches: Mission training projects have enjoyed a history of success in Costa Rica. Therefore, no major issues as constraints to this project are anticipated. On the other hand, this project has the potential for demonstrating innovative approaches to training in vital economic and policy areas. For example, the project will be designed to permit a quick reponse to unforeseen targets of opportunity and the lessons learned from the current Training for Private Sector Development Project (515-0212) will be incorporated into the implementation of this new project.

I. PID and PP Approval: USAID/Costa Rica requests that the Bureau authorize the Mission Director to approve the PID and PP for this project.

NEW PROJECT DESCRIPTION FOR FY 1992

F. Project Title: Solid Waste Management

Project No.: 515-0264

LAC Bureau Objective/Subobjective:

Objective I: Support the achievement of broadly-based sustainable economic growth.

Sub-objective B: Encourage a vigorous response by the private sector to a favorable policy environment.

Funding: ($000) FY 1992: $1,675 (G) LOP: $1,675 (G)

Functional Acct.: Agriculture, Rural Development and Nutrition (ARDN)

A. Consistency of project with Mission strategy: The primary goal of A.I.D. assistance to Costa Rica is to set the basis for sustainable economic growth through an increase in exports, increased public sector efficiency, and proper environmental and natural resources (ENR) management.

This Project supports the goals related to public sector efficiency and ENR management. It also strengthens the capacity of participating municipalities, as democratic institutions, to respond to the basic service needs of their constituencies.

B. Relationship to A.I.D. and other donor activities: Currently there is very little activity being undertaken in Costa Rica by other donors in the area of solid waste management. This pilot activity will establish a model for future replication by other donors.

C. Relationship of project to overall A.I.D. policy objectives: A recently announced Agency Environmental Initiative encourages three general categories of Agency interventions: (1) sound environmental and economic policies; (2) institutional development; and (3) technology generation and commercialization. This Project responds to all three guidelines and, according to a recent LAC Bureau cable (State 383359), "will help to reverse environmental degradation of soil and water and improve the health status of local communities through proper solid waste management".

D. Project description: The Project purpose is to demonstrate an effective, efficient and environmentally sound approach to municipal solid waste collection and treatment through involvement of the private sector, and to support efforts to broaden this pilot approach to the rest of the country.

Of the over 1,600 metric tons (3,520,000 lbs.) of solid waste which Costa Rica produces each day, 800 tons remain uncollected, 480 tons go directly into the country's rivers and approximately 320 tons are left untreated in unsanitary, open air dumps. This problem increases each day in proportion to the country's growing population. From 1990 to the year 2000, the population of the country will have increased by 28% (2.9 million to 3.6 million) but its daily generation of solid waste will have increased by 113%, from 1,682 to 3,588 tons per day.

The GOCR, and particularly the Municipal Development Agency (IFAM or Instituto de Fomento y Asesoría Municipal), recognize the seriousness of the problem and have identified the improvement of solid waste management as a priority.

The Project includes two major activities. The primary activity will provide financial and technical assistance to strengthen a consortium of municipalities. The consortium will contract private firms to collect a portion of the region's solid waste, and will construct, operate and maintain Costa Rica's first sanitary landfill. A second project activity will establish a preinvestment fund through which other municipalities may obtain funding for planning similar waste management projects, thus enhancing the demonstration effect of the primary activity.

By the end of the fifth year, the Project will have not only improved solid waste management in the pilot region, but will have one or more private contractors effectively providing treatment services for all seven municipalities and collection services for at least four. Water and soil pollution will have measurably diminished in the vacant properties and rivers formerly used as dump sites in the Project area and will have been kept to acceptable levels at the new landfill.

The Project will directly benefit an estimated 183,600 residents in seven participating municipalities. Indirect beneficiaries will include some 25,000 nearby residents who suffer from downstream effects of the current inadequate disposal of solid waste.

Financial Plan:

1.	Components	
	a. General Operations	35,000
	b. Solid Waste Collection	345,000
	c. Landfill Development	740,000
	d. SWM Fund	400,000
2.	Audits and Evaluations	40,000
3.	Contingencies	115,000
	Total	$1,675,000

E. Planned implementation arrangements: The implementing agency for this Handbook 3 Grant Agreement will be the GOCR's Municipal Assistance Institute (IFAM). The grant will finance technical assistance and commodities for IFAM and the Consortium, and A.I.D.'s Regional Housing and Urban Development Office for Central America (RHUDO/CA) will also be available to provide complementary technical and management assistance.

F. Sustainability: This Project addresses both solid waste collection and treatment through the establishment and pilot testing of a decentralized financial and administrative service delivery system. If successful, this system will establish the basis for program replication on a nation-wide basis.

To ensure sustainability, a gradual increase in user fees will be instituted in the two years before the landfill opens in order to meet all operational and recurrent costs of both collection and treatment. Subsequent increases will compensate for inflation.

G. Mission management role: Overall Project management responsibility will be vested in the Chief of the General Development Office (GDO) with the Mission Housing Advisor responsible for project implementation monitoring and supervision. In addition, the Mission Housing Engineer MHE, who was the primary contact with IFAM in the recently completed $7 million local currency infrastructure project, will devote considerable time to this Project in its first year.

H. Potential issues and/or innovative program approaches: The most innovative aspects of this proposal involve technical, institutional and recurrent cost considerations. First, this is the country's first attempt to establish a technically adequate sanitary landfill which will conform to (locally adapted) EPA standards now in force in over 16,000 such landfills in the United States. Secondly, the institutional focus on helping municipalities (rather than the central government) to more effectively provide local services with the involvement of the private sector is also unique, since it constitutes a decentralization and privatization initiative never before attempted by the Mission. Thirdly, the notion of paying for all recurrent costs associated with a municipal service exclusively with user fees is also a first for Costa Rica. Although these increases will call for an extensive community education campaign, recent voluntary tariff increases in some of the seven municipalities involved indicate that residents are now willing to pay for improved solid waste services, considering the negative environmental and health consequences of the status quo. Overall, while this project is an exciting and highly relevant development challenge in the environmental area, the complicated technical and governmental control issues are unusually difficult to resolve with confidence. The project has been carried over from FY 1991 to FY 1992 precisely to allow the more detailed analyses and feasibility studies to be completed before proceeding.

I. PID and PP Approval: USAID/Costa Rica requests that the Bureau authorize the Mission Director to approve the PID and PP for this project.

NEW PROJECT DESCRIPTION FOR FY 1992

G. Project Title: Legislative Assembly Support (FY 92 new start)

Project Number: 515-0267

LAC Bureau Objective/Subobjective

Objective II: Support the evolution of stable, democratic societies.

Subobjective A: Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.

Funding: ($000) FY 1992: $1,000 (G) LOP: $3,000 (G)

Type of Funding: Private Sector, Energy and Environment (PSEE)

A. Consistency with Mission strategy: The project supports the Mission's commitment to strengthen and modernize Costa Rica's democratic government institutions to assure their adaptation and continued ability to confront current challenges.

B. Relationship to AID and other donor activities: This project will build on previous smaller legislative staff development activities backed by the mission. The project will make specific arrangements to coordinate with any activities that Sweden or other donors decide to initiate in this area to avoid duplication of activities.

C. Relationship of project to overall AID policy objectives: The overall Bureau objective of strengthening democratic institutions specifically touches on the legislature as one of the main targets of support.

D. Project description: The purpose is to solidify and upgrade the organizational function of the national legislature by: an in-depth diagnostic study aimed towards evolving a new operational model that will be adequate to the challenges of examining national policy issues, efficiently identifying, considering and selecting options, and transforming these into clear and concise laws. At the same time, through an upgraded technical and support staff, rationalized committee structure, and adequate library and automated information system, legislators will be placed on a more equal footing with the executive branch. The evolution of a multi-year management and administrative strategic plan will allow the repositioning of the Asamblea in the fortified and streamlined position its members and leadership seek.

The diagnosis and subsequent Strategic Planning Exercise will incorporate the results of project-sponsored research and public examination of transcendent policy issues. Some elements to be examined are:

- Role and relationship of the Contraloría and the Asamblea
- Realistic staffing and advisor needs
- Financing of a fully modern legislature
- Consideration of alternative structural models based on U.S., European and other Latin American models
- Reconsideration of nature, number and function of standing and special committees
- Adequacy of oversight role vis-a-vis the executive branch

Library, legislative reference, and documentation center: A fully modern facility would be designed, equipped and delivered in order to provide legislators with the beginning of a credible counterpart to executive branch facilities and allow the staff advisors to function independently of other institutions. The plan for this center will be developed in the process of carrying out the Strategic Planning Exercise.

Research into fundamental Costa Rican political and policy issues: A policy research fund will be set up to support the establishment and work of an Institute for Policy Studies, which will be the center for scholarly and professional examination of issues such as:

- Non-reelection of Deputies - pros and cons
- Redistricting and Residency requirements
- Municipal government revitalization
- Legislative techniques and clarification of interpretative authority

Long-Term training: Up to five masters degree programs would be also funded for legislative advisors. Participants would agree to return to their same or similar positions upon degree completion. We envision the long-term training to be taken at quality institutions with concentrations in legislative management and preferably a Latin American focus.

Financial Plan:

Diagnostic Assessment	$ 250,000
Strategic Planning Exercise	500,000
Library and Documentation Center (Commodities)	1,000,000
Policy Research Fund Endowment	500,000
Long Term Staff Training	350,000
Project Administration	400,000
Total	$3,000,00

E. Planned implementation arrangements: A Handbook 3 grant agreement is anticipated with the GOCR. The Mission would contract with an appropriate technical and research institution experienced in legislative development to guide and carry out some of the project elements.

In addition to these resources, funds from the LAC Regional Legislative Development Project (598-0770) may be used as well.

F. Sustainability of proposed activities: The acceptance of considerable counterpart administrative and management responsibility for the new organizational units and their support is the principal element that will contribute to long-term sustainability of project-generated restructuring.

G. Mission management role: Project management responsibilities will be under a USDH in the Regional Administration of Justice Office.

H. Potential issues and/or innovative program approaches: The obvious opposing political interests of the principal political parties represented in the Asamblea membership has potential to negatively impact even implementation progress. However, there is also now fairly strong sentiment among the lawmakers for modernizing operations and streamlining the execution of mundane time-consuming tasks.

I. PID and PP Approval: USAID/Costa Rica requests that the Bureau authorize the Mission Director to approve the PID and PP for this project.

NEW PROJECT DESCRIPTION FOR FY 1993

H. Project Title: Private Power Generation

Project No.: 515-0259

LAC Bureau Objective/Subobjective:

Objective I: Support the achievement of broadly-based sustainable economic growth.

Subobjective B: Encourage a vigrorous response by the private sector to a favorable policy environment.

Funding: ($000) FY 1993: $1,075 (G) LOP: $5,000 (G)

Functional Acct.: Private Sector, Energy & Environment (PSEE)

A. Relationship to A.I.D. country strategy/objectives: The project relates directly to the economic growth objective of our strategy by responding to the growing shortfall of electricity, which threatens to curtail future economic growth. It is also consistent with natural resource conservation objectives.

B. Conformance with Agency and Bureau policy: The project conforms with Agency policy which encourages widened opportunity for private sector provision of goods and services.

C. Project description: The project will have two principal elements; the creation of an on-shore financing mechanism for private power generation by consumer-owned rural electric systems in Costa Rica, and support for load management initiatives to improve power efficiency. Costa Rica is facing near-term power shortages brought on in large part by financial constraints in the public power system and overreliance on international financing of the sector. Against this background, the Mission, AID/W, the S&T Bureau and ROCAP have helped the Government of Costa Rica to bring about landmark policy reforms opening up power generation to private investment and have demonstrated the potential to improve efficiency in electricity use.

The proposed project's power generation element will purchase Costa Rican external debt for conversion into a long-term, non-inflationary bond that will provide sufficient yields to buy-down market lending rates for medium and long-term power investments by the private sector. Interest earned on bonds received in trade for external paper will be used to support interest payments on long-term bonds issued for local power projects as may be needed. The project will also provide funds to finance technical assistance studies for hydropower development and reforestation for power generation feedstock. The project element for increased power use efficiency will provide technical assistance and equipment to initiate a load management program that expands upon a successful Mission-funded pilot effort. It will also provide technical assistance to improve electrical end-use by reforming regulations and specifications for imported electric-powered equipment.

The project will considerably aid Costa Rica in its efforts to meet national electric power demand in the face of the inability of the national power utility company -- given its considerable foreign debt -- to borrow sufficient resources. Power management will be facilitated to more efficiently utilize the power generated. The effort will result in less imported electricity and foreign exchange outflows as well as replace heavy new demands for thermal power generation plants. Sustainability for this project will be assured by its establishing further linkages between the Costa Rican electric power sector, the private sector and the market pricing incentives.

NEW PROGRAM DESCRIPTION FOR FY 1993

I. Project Title: Public Sector Responsiveness Sector Program

Project Number: 515-0268

LAC Bureau Objective/Subobjective

Objective II: Support the evolution of stable, democratic societies.

Subobjective A: Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.

Funding: ($000) FY 1993: $26,000 (G)

Functional Acct.: Economic Support Fund (ESF)

A. Relationship to A.I.D. country strategy/objectives: This program will directly support the Mission aim of helping the GOCR undertake the institutional and budget transformations that are needed to round off the stabilization program of the mid-eighties and to position Costa Rica for the economic challenges of the nineties.

B. Conformance with Agency and Bureau policies: The program directly supports Agency objectives of increasing efficiency in the provision of social goods while simultaneously lessening the predominance of the government in the national economy. Improvement in the fiscal deficit and investment accounts will also contribute directly to the fulfillment of macroeconomic objectives and improvement of the economic infrastructure, both of which feed into the overarching objective of sustained economic growth.

C. Project description: The purposes of the program are to provide balance of payments support to stabilization efforts in Costa Rica, and to encourage policy, structural and sectoral changes that will contribute to the structural transformation of the public sector and of the public/private mix in the economy. One particular target will be the rationalization and reduction of recurrent costs, to allow a return to more adequate investment levels. Since the 1981 economic crisis, Costa Rica has reduced its public sector deficit at the expense of its investment and maintenance budget and, as a result, the national infrastructure is deteriorating rapidly.

The grant will consist of a cash transfer to a separate Central Bank account to finance private sector imports from the United States of eligible raw materials, capital goods and other productive inputs. Local currency in an amount equivalent to the grant will be deposited by the Central Bank in a special account to finance improved policy formulation and the application of these policy measures within the Costa Rican public sector in order to support rational public sector expenditure levels and other efficiency measures.

The generated local currency will complement dollar funded efforts under the Policy and Training Support Project (515-0241) which is directed toward Labor Mobility, Pension reform, Customs Service Reform and Budget Reform.

IV. RESOURCE REQUIREMENTS

Summary. Portfolio consolidation and the cost savings plan under the Mission management strategy continue to guide the planning and implementation of the USAID/Costa Rica assistance program. The most important of the cost savings measures is the reduction in personnel levels outlined in the plan approved at post and presented to the Bureau in May 1988. Moving from a staff level of 180 employees in 1988 to the 1991 level of 133, the Mission has implemented the plan on schedule and expects to decrease levels further by at least 18 positions (including 4 USDH) over the FY 1991-93 period (see also Chart One). In this connection, it should be noted that USAID/Costa Rica staffing will be the subject of a general NSDD-38 review of all USG positions under the authority of the Chief of Mission. This review, recommended by the State Inspectors during their October 1990 inspection, will be conducted in the first quarter of CY 1991.

This decrease in staffing parallels the concerted consolidation of the present dollar and local currency portfolio, and the decline in program levels. ESF levels in particular are declining rapidly. Even so, the Mission will continue to carry reponsibility for the implementation or supervision of a sizeable portfolio of previously funded dollar and host country owned local currency (HCOLC) activities that does not decline substantially until 1995, and includes within its OE ceiling support for a number of regional functions, i.e. RAJO, ROCAP, IRM, RHUDO, RTAC, OFDA and others (see also Chart Two). An analysis of OE dollar and local currency requirements indicates the need for modest inflation-caused increases in OE dollar funding over the AP period and into 1998, at which point the OE local currency is expected to run out. The decision then will be the future size of this Mission and the use of the USAID building. One factor for consideration in this decision could include taking advantage of the facility at some future point by moving regional offices to Costa Rica.

A. Program levels (DA, ESF & PL 480)/Mortgage Analysis. The Mission has substantially reduced the complexity of its portfolio by limiting allocations of new local currency to ongoing Trust Fund activities, to DA projects as counterpart, and to GOCR sector programs (these receive the largest share of the funds). Most of the old ESF HCOLC activities have reached their PACDs, and the Mission retains active supervision of only a few of the more important remaining programs. In those instances where the Mission has given strong technical support to a GOCR sector program, such as labor mobility, the GOCR has full implementation responsibility. On the DA side, the Mission has only three sizeable mortgages: a) the CAPS II project (515-0254), with an LOP of $15 million and a planned post-FY 1991 mortgage of $10 million; b) the Training for Development project (515-0263), with a planned LOP of $5 million with first year funding in FY 1992 of $920,000; and c) the Private Power Generation project (515-0259), with a planned LOP of $5 million and first year funding of $1.075 million. The following table summarizes mortgages by functional account.

Functional Acct.		FY 91	FY 92	FY 93	Outyear Mortgages
ARDN	New starts	5,000	1,675	500	-
	Mortgages	0	2,776	875	0
EHR	New starts	0	920	0	-
	Mortgages	0	0	1,900	2,180
POP	New starts	0	1,000	0	-
	Mortgages	0	0	1,000	0
PSEE	New starts	0	1,000	1,075	-
	Mortgages	2,770	0	3,275	3,925
ESF $	CAPS II mortgage	1,000	4,000	4,000	2,000

B. Program Uses of Local Currency

Joint programming of HCOLC with the GOCR in CY 1990 took an interesting turn, as the new Calderon Administration opted with Mission concurrence to reprogram funds from ongoing sector uses to high priority areas of deficit reduction and labor mobility. These two areas will continue to be high priority, as preliminary discussions on programming the local currency associated with ESRs IX and X indicate. Other planned uses include the private sector-directed export development foundation FUNDEX; counterpart for DA projects; and funding for the Mission OE and Program Trust Funds.

HCOLC associated with ESF funds anticipated for FY 1992 ($30 million) and FY 1993 ($30 million) will be programmed primarily for sector assistance in the areas of natural resources and public sector efficiency. PL 480 Title I resources ($15.0 million per year) will, if available, be targeted to the trade and export sector.

C. Operating Expenses

The Costa Rica Mission depends on its local currency trust fund for approximately 80% of its OE needs. Since the end of those resources is now in sight, this narrative on Mission needs extends its perspective out to FY 1998.

1. Staff Levels Since 1988, USAID/Costa Rica has undergone rapid staff reductions. Given below are overall position numbers, both OE and Project funded, and the breakdown by employee type as of the last day of each fiscal year.

Staff Levels

Fiscal Year	88	89	90	91	92	93	94	95	96	97	98
USDH	23	23	22	19	17	17	14	10	10	10	10
USPSC	21	21	16	13	10	10	10	10	10	10	10
FNDH	18	18	18	18	18	18	18	18	18	18	18
FNPSC	118	105	95	83	75	70	70	70	70	70	70
Total Staff	180	167	151	133	120	115	112	108	108	108	108

The USDH numbers reflect a downward trend to 10, which is the size of a "basic" USAID Mission. Absent a decision to terminate A.I.D. activities in Costa Rica, we believe it prudent to project a core of USDH, USPSC, FNDH, and FNPSC personnel from 1995 onward. FN levels represent mostly the necessary support staff for maintaining the Mission's present quarters.

2. OE Dollar Requirements: Based on the above staff numbers, Mission dollar needs are estimated as shown below. These amounts include USDH Costs, function code 100.

OE Dollar Requirements ($ Millions)

Fiscal Year	88	89	90	91	92	93	94	95	96	97	98
	0.77	0.73	0.95	1.08	0.98	1.02	1.07	1.12	1.17	1.22	4.30

The dollars needed increase dramatically from $1.22 million in 1997 to $4.30 million in 1998 since that is when the local currency OE Trust Fund runs out.

Dollars account only for about 20% of Costa Rica's OE budget. Therefore, only marginal adjustments are possible without closing down the Mission. For example, in order to save $500,000, the OE Dollar budget would have to be cut by 50%. At this level all OE funded USPSC's would have to be terminated, saving $250,000, and almost all NXP, saving $250,000. Cutting USPSC's below planned levels would, on top of planned USDH reductions, make it impossible to properly manage the Mission's program.

This Mission makes minimal use of reverse accomodation and intends to continue this policy in the future. Any potential dollar OE budget reductions must be considered with this in mind.

3. OE Trust Funds - When do they run out?

The expected lifetime of the OE Trust Fund depends on the rate of income and the rate of expenditure. In the following analysis we have assumed, on the income side, that the last Colones will go into the OE Trust Fund in FY 1995, which is expected to be the final year of cash transfers to Costa Rica.

We also assume that: 1) for policy reasons, no further HCOLC will be monetized after cash transfers end; 2) that monetization is never more than cash transfers in a given period, (the Mission's Senior Economist advises that, absent cash transfers which cause demonetization by drawing Colones from the private sector importers to the Central Bank, any monetization for the OE Trust fund or anything else would reduce either the amount of private sector domestic credit or GOCR foreign exchange reserves), and 3) that 10 percent of the amount of local currency to be monetized in future years is transferred into the OE trust fund.

These assumptions result in the following income projections:

Fiscal Year	88	89	90	91	92	93	94	95	96	97	98
Planned Cash Transfer Per Last ABS ($ Millions)	na	na	na	24	26	16	15	10	0	0	0
Planned OE Trust Fund Monetization @10% ($ Millions)	na	na	na	na	2.6	1.6	1.5	1.0	0	0	0
Estimated Exchange Rate, end of FY	na	na	na	na	129	151	176	205	na	na	na
Planned OE Trust Fund Monetization (LC Millions)	na	na	na	238	335	241	264	205	0	0	0

On the expenditure side, the OE local currency needs are shown below. The numbers increase because inflation outpaces reduced costs from staff reductions. In fact, office operations costs, which constitute about one third of total OE costs, are essentially fixed, assuming the Mission continues to occupy its present quarters. This is a likely assumption since these quarters are rent free.

OE Local Currency Requirements
(LC Millions)

Fiscal Year	88	89	90	91	92	93	94	95	96	97	98
	na	na	na	386	413	450	517	595	684	786	0

Taken together, these income and expenditure projections, (plus interest earnings which are not shown year by year) result in the following estimated unexpended OE Trust Fund balances at the end of each fiscal year:

OE Trust Fund Balances
(LC Millions)

Fiscal Year	90	91	92	93	94	95	96	97	98
	876	1241	1382	1404	1380	1243	769	86	0

The exhaustion of the OE Trust Fund in FY 1998, together with other assumptions as described above will cause a sudden jump in OE dollar needs to $4.30 million.

The Mission is assuming that no control levels will be placed on OE local currency obligation/expenditure levels. Control levels which would not permit the expenditure rates indicated above would result in a greater dollar requirement which is not likely to be met, or reductions in Mission staff, which would lead to serious vulnerabilities in managing Mission programs.

4. **Need for Strategic Decision**

The point of all of this is that some fundamental long range decisions about the future size of this Mission and about the future use of the physical facility must be made.

This Mission currently occupies rent-free quarters in a building constructed with HCOLC. Ownership of the building will revert to the Government of Costa Rica when no longer needed by AID. In order to justify continued occupation of these premises, say after 1994, and to preserve USAID/Costa Rica's rent free quarters, the Mission believes that serious consideration must be given to moving other AID offices such as ROCAP and RIG/A/T, from their present locations to Costa Rica. This would avoid future rental costs for this Mission, and save rental costs for those offices moved. Besides a first class physical plant, Costa Rica offers security, a well trained and reasonably priced labor force, excellent telecommunications, good housing, and no hardship differential costs or COLA's.

However, any offices moving into Costa Rica would have to bring their own dollar OE resources, because it would be inappropriate to use Costa Rican HCOLC to fund operating costs not related to the Costa Rica bilateral Mission, and because after FY 1997 there won't be any HCOLC left.

US/AID COSTA RICA
MISSION PERSONNEL

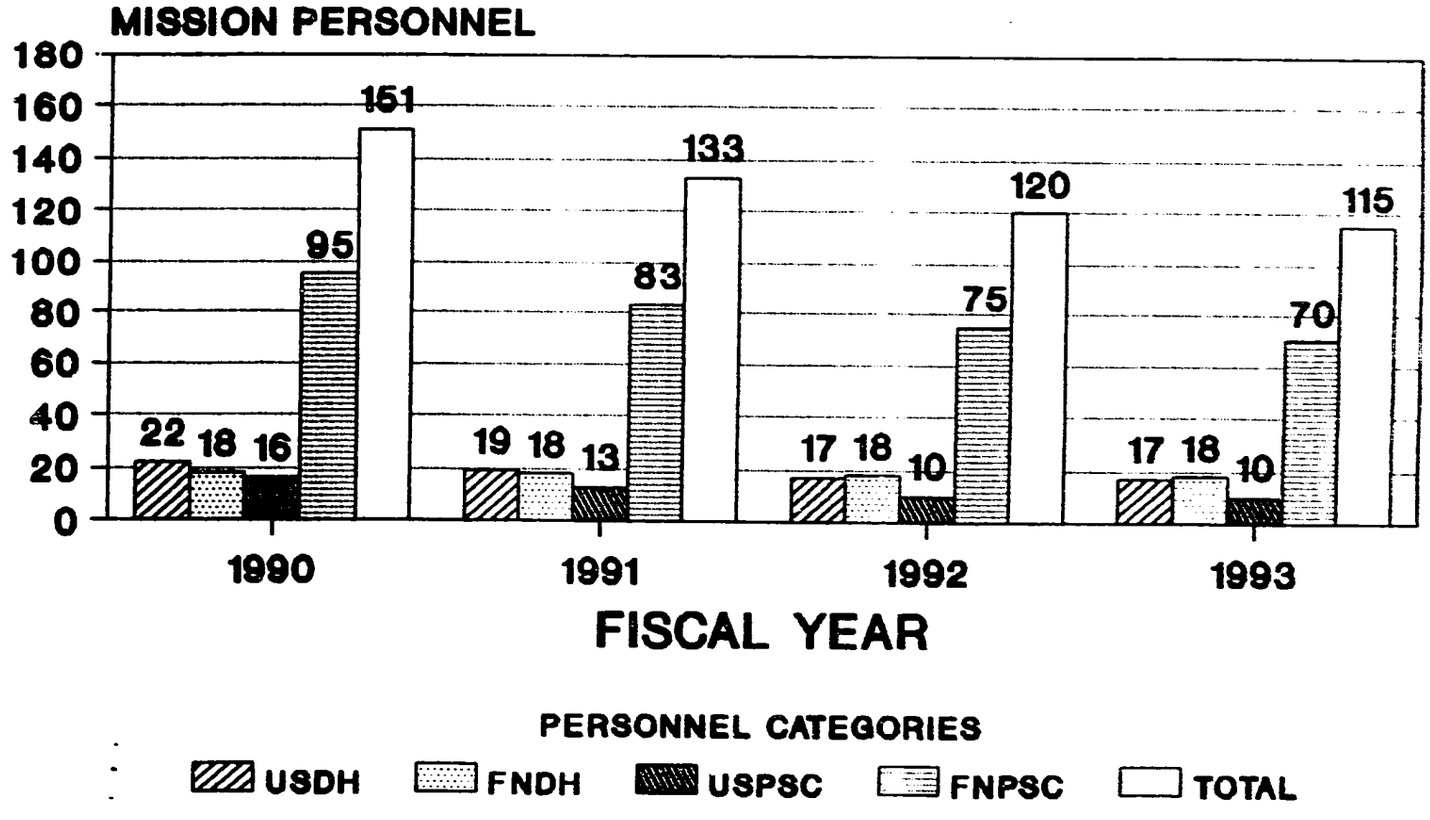
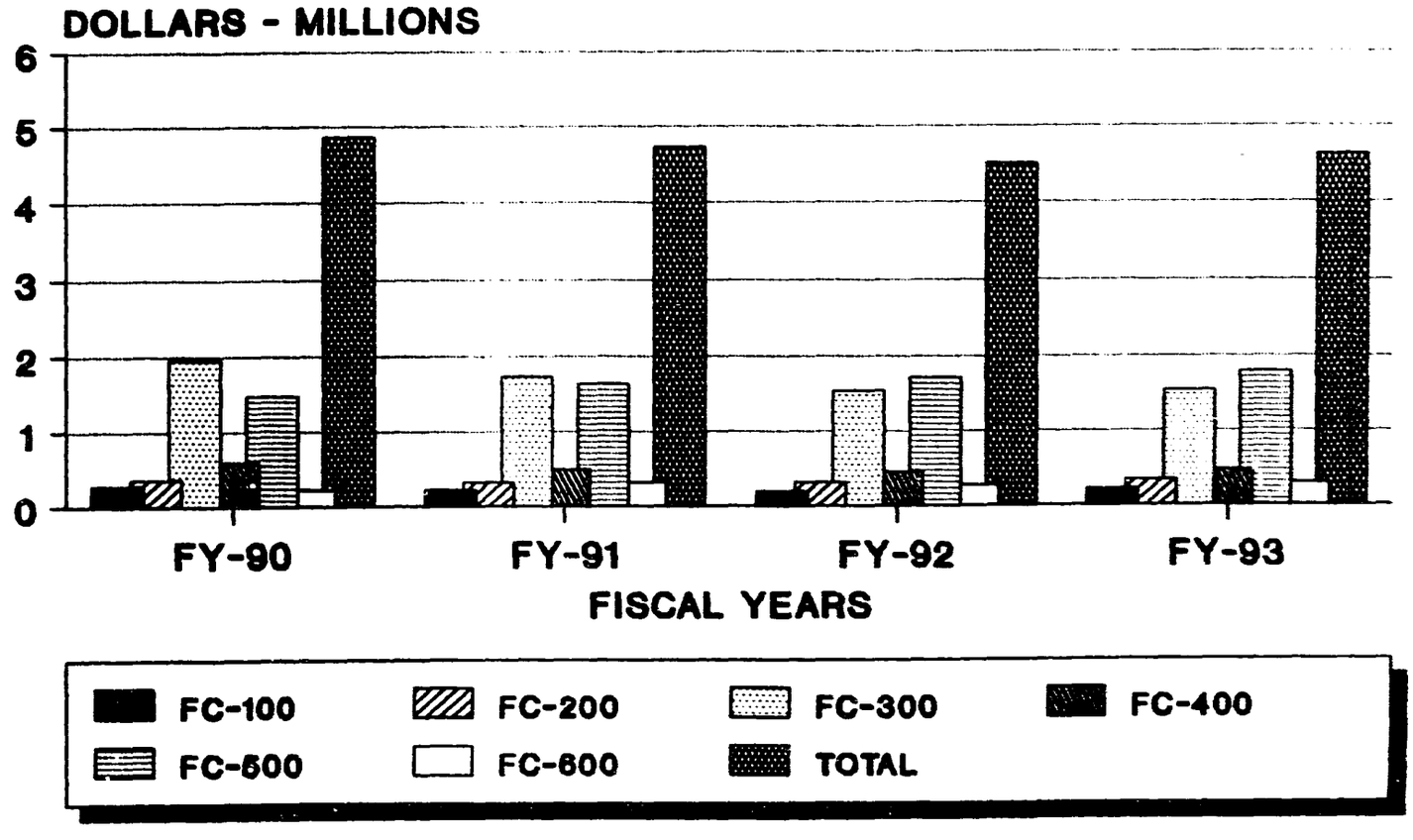


CHART ONE

CHART TWO

USAID/COSTA RICA
O. E. BUDGETS FY90 - FY93



B. TABLE FOUR

LOCAL CURRENCY UTILIZATION - FY 1990
($000 equivalent based on actual disbursements from the Central Bank Special Account)

	SOURCES						
A. USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG Budget Sector	15,186	-	-	-	-	-	15,186
HG Budget General	-	-	-	-	-	-	-
HG Contribution to AID Projects	38,536	-	-	-	-	-	38,536
HG Contribution to Other Donor Proj.	-	5,461	-	-	-	-	5,461
HG Managed L/C Proj. (Govt. or Private)	6,358	3,408	-	-	-	-	9,766
AID Managed L/C Proj.	450 *	-	-	-	-	-	450
AID OE Trust Fund	2,941	-	-	-	-	-	2,941
AID Proj. Trust Fund	3,575	-	-	-	-	-	3,575
Section 108	-	-	-	-	-	-	-
Other (C.U.P)	-	464	-	-	-	-	464
TOTAL	67,046	9,333	-	-	-	-	76,379
B. CHANNEL FOR ASSISTANCE							
Public Sector	18,348	8,150	-	-	-	-	26,498
Private Sector	48,698	1,183	-	-	-	-	49,881
TOTAL	67,046	9,333	-	-	-	-	76,379

Estimated exchange rate of C85.0 to $1.00
* Obligations incurred in prior years

LOCAL CURRENCY UTILIZATION - FY 1991
($000 equivalent based on estimated disbursements from the Central Bank Special Account)

	SOURCES						
A. USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG Budget Sector	27,692	277	-	-	-	-	27,969
HG Budget General	-	-	-	-	-	-	-
HG Contribution to AID Projects	28,862	-	-	-	-	-	28,862
HG Contribution to Other Donor Proj.	-	624	-	-	-	-	624
HG Managed L/C Proj. (Govt. or Private)	7,175	12,209	-	-	-	-	19,384
AID Managed L/C Proj.		-	-	-	-	-	-
AID OE Trust Fund	2,630	-	-	-	-	-	2,630
AID Proj. Trust Fund	4,872	-	-	-	-	-	4,872
Section 108	-	1,100	-	-	-	-	1,100
Other (C.U.P)	-	368	-	-	-	-	368
TOTAL	71,231	14,578	-	-	-	-	85,809
B. CHANNEL FOR ASSISTANCE							
Public Sector	53,655	13,000	-	-	-	-	66,655
Private Sector	17,576	1,578	-	-	-	-	19,154
TOTAL	71,231	14,578	-	-	-	-	85,809

Estimated exchange rate of C90.0 to $1.00

LOCAL CURRENCY UTILIZATION - FY 1992
($000 equivalent based on estimated disbursements from the Central Bank Special Account)

A. USES	SOURCES						
	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG Budget Sector	18,234	2,902	-	-	-	-	21,136
HG Budget General	-	-	-	-	-	-	-
HG Contribution to AID Projects	9,648	1,800	-	-	-	-	11,448
HG Contribution to Other Donor Proj.	-	2,250	-	-	-	-	2,250
HG Managed L/C Proj. (Govt. or Private)	-	5,633	-	-	-	-	5,633
AID Managed L/C Proj.	-	-	-	-	-	-	-
AID OE Trust Fund	5,000	-	-	-	-	-	5,000
AID Proj. Trust Fund	1,000	-	-	-	-	-	1,000
Section 108	-	1,025	-	-	-	-	1,025
Other (C.U.P)	-	375	-	-	-	-	375
TOTAL	33,882	13,985	-	-	-	-	47,867
B. CHANNEL FOR ASSISTANCE							
Public Sector	18,234	12,485	-	-	-	-	30,719
Private Sector	15,648	1,500	-	-	-	-	17,148
TOTAL	33,882	13,985	-	-	-	-	47,867

Estimated exchange rate of C100.0 to $1.00

LOCAL CURRENCY UTILIZATION - FY 1993
($000 equivalent based on estimated disbursements from the Central Bank Special Account)

	SOURCES						
A. USES	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG Budget Sector	34,000	1,000	-	-	-	-	35,000
HG Budget General	-	-	-	-	-	-	-
HG Contribution to AID Projects	-	3,200	-	-	-	-	3,200
HG Contribution to Other Donor Proj.	-	3,000	-	-	-	-	3,000
HG Managed L/C Proj. (Govt. or Private)	-	3,400	-	-	-	-	3,400
AID Managed L/C Proj.	-	-	-	-	-	-	-
AID OE Trust Fund	3,000	-	-	-	-	-	3,000
AID Proj. Trust Fund	1,000	-	-	-	-	-	1,000
Section 108	-	1,500	-	-	-	-	1,500
Other (C.U.P)	-	375	-	-	-	-	375
TOTAL	38,000	12,475	-	-	-	-	50,475
B. CHANNEL FOR ASSISTANCE							
Public Sector	34,000	10,675	-	-	-	-	44,675
Private Sector	4,000	1,800	-	-	-	-	5,800
TOTAL	38,000	12,475	-	-	-	-	50,475

Estimated exchange rate of C105.0 to $1.00

C. TABLE FIVE: SUMMARY PROGRAM FUNDING TABLE
Dollar Program by Functional Account
($000)

Project Title and No.	FY 91	FY 92	FY 93
Development Assistance			
ARDN			
Subtotal	5,187	4,625	1,550
(Loan)	-	-	-
(Grant)	(5,187)	(4,625)	(1,550)
Population			
Subtotal	-	1,000	1,000
(Loan)	-	-	-
(Grant)	-	(1,000)	(1,000)
Health			
Subtotal	-	-	-
(Loan)	-	-	-
(Grant)	-	-	-
Child Survival			
Subtotal	-	-	-
(Loan)	-	-	-
(Grant)	-	-	-
AIDS			
Subtotal	-	-	-
(Loan)	-	-	-
(Grant)	-	-	-
Education			
Subtotal	-	920	1,900
(Loan)	-	-	-
(Grant)	-	(920)	(1,900)
Environment & Energy			
Subtotal	2,976	2,455	4,550
(Loan)	-	-	-
(Grant)	(2,976)	(2,455)	(4,550)
Subtotal DA	8,163	9,000	9,000
(Loan)	-	-	-
(Grant)	(8,163)	(9,000)	(9,000)
Economic Support Fund			
Subtotal ESF	25,000	30,000	30,000
(Loan)	-	-	-
(Grant)	(25,000)	(30,000)	(30,000)
P.L. 480, Sec. 416	15,000	15,000	15,000
(Loan)	(15,000)	(15,000)	(15,000)
(Grant)	-	-	-
PROGRAM TOTAL	48,163	54,000	54,000
(Loan)	(15,000)	(15,000)	(15,000)
(Grant)	(33,163)	(39,000)	(39,000)

V. MISSION-INITIATED ISSUES/DISCUSSION POINTS

The following are points of issue or discussion which the Mission believes merit consideration during the Action Plan review process. Our inputs for this purpose focus on larger program-wide and/or senior management concerns rather than specific portfolio project issues or questions.

1. ESF Funding Levels Over the Action Plan Period. The Mission recognizes that the tight resource situation throughout the Bureau and the Agency as well as the needs in other LAC countries will continue to severely constrain ESF allocations over the Action Plan period. Notwithstanding, as we move away from the levels of the CAI era, the case for keeping the ESF levels as close as possible to $30 million over the Action Plan years is strong. Costa Rica is a premier success story and is apparently headed toward advanced developing country status. However, the next few years are critical. Adequate resources to carry out the remaining austere policy reforms described in this document are a precondition to success. In short, it is not time yet to declare complete victory in Costa Rica. U.S. balance of payments economic assistance at credible levels is important: (1) to keep this success story from unraveling before it attains self-sustaining growth, and (2) to retain a strong voice in the policy dialogue for appropriate reforms and U.S. interests more generally.

As a subset of this issue, the terms and timing of the release of the $10 million ESF funds obligated under the FY 1989 program but withheld against progress in resolving expropriation cases take on added importance. The Mission believes the ongoing discussion of what constitutes progress for disbursement purposes should be visited again before and during the Action Plan Program Week in an effort to reach agreement with State colleagues on release of these funds during a year of particular need. If agreement can be reached, it would help in realizing the flows projected by the IMF from U.S. assistance ($40 million during 1991) and on which the Stand-By agreement hinges in part.

2. Degree of Program Risk. While the Mission is embarked on what it considers a realistic, viable and thorough policy-based strategy, there is a need to point to the higher than normal risk factor represented by our having entered into the politically sensitive and potentially explosive area of public sector employment reductions and restructuring, especially at a time when our place at the policy table may be losing some of its welcome with the reductions in program assistance levels. However, along with the macroeconomic program, the trade and investment development and the environmental and natural resources (ENR) objectives, this is a centermost element in the Costa Rican Government's own planning, and the strategy would be seriously flawed without it. The importance of such an objective is highlighted in the Bureau's own thinking as carried in LAC OBJECTIVE TWO. Similarly, there is a need for extra sensitivity and flexibility in planning for, designing and implementing a legislative support project with Costa Rica's Asamblea.

3. Movement of the Mission toward ADC Status. The Mission's strategy and expectations for further gains toward economic self-sufficiency for Costa Rica lead to this discussion. This is a matter of both timing and definition. It has significant implications for staffing and operating expense considerations as well as future plans for use of the USAID Costa Rica building. Mission views on these are covered in the Part IV - Resource Requirements of this Action Plan submission.

4. Clarifications Needed on Critical Program Directions. The Bureau and the Agency are still working through important Agency-wide program and policy changes that will necessarily impact in substantial ways on field mission planning. The Mission realizes that full or final answers may not be available on some of the subjects mentioned, but we wish to raise some of them here for guidance updates and the discussion and heightened awareness value that the Action Plan format affords.

(a) PDD/EAI. The legislative package for EAI is apparently still a long way from fully formed and agreed on. Philosophical agreement with this admirable new initiative is easier at this point than plugging it into our day-to-day planning for the Action Plan period. The Mission has concentrated its portfolio in the areas of trade and investment development and ENR management. There are significant externalities to be gained by close, even formal, association of our program with the EAI in these areas. What options and/or mechanisms are shaping up that can facilitate this?

(b) How PL-480 loan programs (the old Title I) will be managed and what access to associated local currencies will we have? From another angle, PL-480 Title I (old definition) resources have been an important part of the balance of payments assistance to Costa Rica in recent years. Given the sharp dropoff of ESF dollars, being able to factor into our planning for US assistance a continuation of this kind of assistance at predictable levels (as well as access to associated HCOLC for program counterpart and support) is vital.

(c) What new or expanded options are shaping up in the debt forgiveness area under the EAI or elsewhere that can be accessed by the Mission and on what terms? The debt forgiveness issue is of considerable importance to this Mission because of the size of Costa Rica's official debt and because of the rich opportunities in ENR management uses.

(d) What options are available for Missions at a time of much lower and possibly still declining ESF resources to deal with CAPS mortgages? The mortgage is $11 million set to come out of scarce ESF over this Action Plan period and in the face of changing priorities in the Mission's strategic approach to training as a development asset. Can CAPS be flexible enough for us or will it be a static element in our portfolio? Can funds for CAPS be over and above our planned ESF allocations?

(e) When will the next round of HCOLC guidance actually be issued and what is it likely to look like in final? HCOLC uses in this Mission cover three eras of guidance and while HCOLC is an important and critical resource for us, it also carries considerable monitoring and vulnerability considerations. Hopefully, pending guidance takes development opportunities at least as much in consideration as audit demands.

5. Functional Accounts. With fairly low DA levels predicted for the Action Plan period (about $9 million a year), flexibility in programming directly to established strategic purposes rather than to convolutions in functional account allocations would be helpful. What is the status of the effort to eliminate functional account for DA? Also, what are the status/prospects/contents of Congressional action on a new FAA?

TABLE ONE: MISSION WORKPLAN

LAC Objectives	Mission Strategic Objectives	Mission Actions
Objective I. Support the achievement of broadly-based sustainable economic growth		
SUB-OBJECTIVES		
A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification	-- Protectionist tax and other incentives favoring import substitution reduced.	-- The FUNDEX Export Foundation created by the GOCR and AID will have prepared and submitted a proposal to the IDB for channelling resources to improve the Costa Rica investment climate under the Enterprise for the Americas Initiative (OPS 8/91)
		-- Monitor compliance with self-help measures to eliminate levies, taxes and import licenses for cereal grains. (RDO 6/91).
	-- Trade procedures liberalized.	-- Under ESR X - Trade and Investment Sector Program, support reductions of preferential tax exoneration systems (PDO 10/9)
B. Encourage a vigorous response by the private sector to a favorable policy environment.	-- Private investment increased	-- Policy dialogue completed to remove restrictions to private bank credit (OPS 1/91)
		-- Comprehensive evaluation and review of local financial market market systems completed (OPS 9/91)

LAC Objectives	Mission Strategic Objectives	Mission Actions
Objective I. B. (Continued) Encourage a vigorous response by the private sector to a favorable policy environment		-- Completion of the IBRD/FIAS evaluation of Costa Rica's Export Sector Program to attract other donor funding for FUNDEX, principally from the Republic of China (OPS 6/91) -- Investments attracted to Costa Rica through AID-assisted investment promotion Programs or facilitated by AID-credit increased by 30% over 1990 (OPS 12/91) -- Completion of an evaluation of 2 1/2 year pilot program providing technical and marketing assistance to local export companies (OPS 6/91) -- Workshop and conference with NTAE exporters to consolidate non-traditional agriculture export policies in regard to pesticide residues, uses and restriction with EPA and FDA (RDO 2/91)
C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged	-- Enhance access to resources needed by the disadvantaged in order to participate actively in the economy	--A credit policy for PVO micro-enterprise lending which strengthens institutional sustainability will be developed and approved by ACORDE (GDO 4/91) --Short-term technical assistance to assist private savings and loan associations in the implementation of a campaign to increase their market share of passbook savings (GDO 6/91)

LAC Objectives	Mission Strategic Objectives	Mission Actions
Objective I. C. continued Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged		--Institutional analysis of the Social Security Institute's systems for contraceptive procurement and logistics management completed (GDO 6/91) --6 short-term groups will go the U.S. under CAPS (GDO 12/91) --160 long-term participants will be selected and sent for training (GDO 12/91)
D. Encourage preservation and sustainable use of the natural resource base.	-- Sustainable use practices adopted in ecologically vulnerable areas -- Establishment of an environmental/natural resources and economic policy environment which fosters sustainable development and preservation of ecologically vulnerable areas.	-- Continue practical demonstrations of land use planning in the new farm settlements (RDO 10/91) -- Short-term technical assistance to assist the GOCR in developing a politically viable bill to create legal framework of a national system of conservation areas (RDO 6/91) -- Work with two counterpart agencies (National Parks Foundation and Executive Watershed Group) to solidify their place in the institutional framework and their capabilities to implement their programs.

LAC Objectives	Mission Strategic Objectives	Mission Actions
OBJECTIVE II. Support the evolution of stable, democratic societies		
A. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.	-- Increased role of private sector in provision of public goods and services	-- Policy dialogue to revise the Privatization Law completed. (OPS 6/91)
		-- Up to 9 evaluations of public institutions or enterprises for possible restructuring or privatization of services completed (OPS 12/91)
	--Effectiveness and strength of legislative branch improved.	--Work with Asamblea to develop a multi-year technical assistance project (RAJO 10/91)
	-- Ability of executive branch to impose fiscal accountability improved.	-- Execute a contract to train a cadre of 120 GOCR budget personnel in cost/benefit, budget analysis. (GDO, EAO, 12/91)
	-- Strengthened rule of law via better trained judges and prosecutors and accurate, widely available legal information system.	-- Phase-in transfer of financial responsibility for justice sector activities from Mission project to GOCR budget (RAJO 10/91)
B. Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non governmental bodies, including the press, community organizations, labor unions, and business associations.	None	

LAC Objectives	Mission Strategic Objectives	Mission Actions
OBJECTIVE III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies		
A. Contribute to the formulation and implementation of USG strategies for dealing with issues of particular, concern, such as drugs, terrorism, and environmental degradation.	None	
B. Support USG foreign policy initiatives that can benefit from AID resources and expertise, such as disasters, epidemics, and resettlement of displaced persons.	None	

TABLE SIX

MISSION ACTIVITIES GROUPED BY BUREAU OBJECTIVE AND SUBOBJECTIVE

LAC Objectives	Mission Activities
Objective I. Support the achievement of broadly-based sustainable economic growth.	
A. Encourage the adoption of and continued adherence to economic policies that promote investment, productive employment, and export-led economic diversification.	0250 ESR X - Trade and Investment (FY 91) 0241 PATS. Policy and Training Support 0247 Financial Services (FY 91 start) PL 480 TITLE I. Balance of Payments Support
B. Encourage a vigorous response by the private sector to a favorable policy environment.	515-0257 IESC OPG International Executive Service Corps 0212 Training for Private Sector Development. 0263 Training for Development (FY 92 start). 0246 ACDI OPG Agricultural Cooperative Development International 596-0129 Regional Agricultural School for Humid Tropics 515-0259 Private Power Generation. (FY 93 start) 515-0264 Private Solid Waste Management (FY 92 start) ESF CODESA Divestiture (HCOLC) PL 480 Section 108 Credit. ESF Special Credit lines in the Banco Central de Costa Rica (BCCR)

LAC Objectives	Mission Activities
	ESF CINDE (Coalición Costarricense para Iniciativas de Desarrollo (HCOLC)
	ESF FUNDEX (Fundación de Exportaciones) (HCOLC).
	0237 Non-traditional Export Technical Support
	ESF Coffee Technification & Diversification (HCOLC)
C. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.	ESF National Housing Mortgage Bank (BANHVI) (HCOLC)
	0258 Cooperative Housing Foundation (CHF)
	0168 Family Planning Self-Reliance
	0261 Population Sector Consolidation (FY 92 start)
	0253 Substance Abuse Awareness/Education OPG
	ESF Classroom Renovation (HCOLC)
	ESF School Computer Program (HCOLC)
	0242 Central American Peace Scholarships
	0254 CAPS II
	0235 Northern Zone Consolidation
	0227 OPG American Institute for Free Labor Development AIFLD
	0252 Support to PVOs ACORDE, OPG
	ESF Asociación Costarricense para Organización de Desarrollo (ACORDE) (HCOLC)
	Special Development Fund ESF (HCOLC)

LAC Objectives	Mission Activities
D. Encourage preservation and sustainable use of the natural resource base.	0243 Forest Management for Stable Environment (0235 Northern Zone Consolidation) 0246 Watershed Management Project. (FY 91 start) 0249 OPG. Caribbean Conservation Corporation 0255 OPG. BOSCOSA Forest Conservation & Management of the Osa Peninsula 0260 ESR XI Natural Resource Sector (FY 92)
OBJECTIVE II. Support the evolution of stable, democratic societies.	
A. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.	Public Sector Efficiency Program (financed under PATS 515-0241 and ESF HCOLC) -- Labor mobility -- Customs modernization -- Pension reform -- Budget Process reform. 0268 ESR XII - Public Sector Responsiveness 0244 Administration of Justice 598-0642 & 597-0002 Regional Admistration of Justice 0267 Legislative Support. (FY 92 start)
B. Encourage pluralism, tolerance of opposing views and support for democratic values on the part of non governmental bodies, including the press, community organizations, labor unions, and business associations.	NONE
OBJECTIVE III. Respond to needs for international cooperation in addressing specific challenges to the attainment of broadly-based sustainable economic growth and the evolution of democratic societies.	NONE