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**USAID IMPACT ON COSTA RICAN DEVELOPMENT  
DURING THE LAST 50 YEARS**

**GOVERNANCE AND DEMOCRACY**

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## 1. INTRODUCTION

The creation of a sector classification of "governance and democracy" responds to a current need for analyzing USAID actions that can largely be construed to satisfy two goals in Costa Rica over time: the strengthening of the country's democratic institutions, and the improvement of public administration. These two areas of concern, between 1952, year of the first available documentation, and 1995, were to come increasingly closer together, due, on the one hand, to changes in the overall U.S. Latin American policy, and on the other to the development of events in the field. For the subcontinent as a whole, the United States went from discrete technical assistance programs (1946-60), to the more ambitious Alliance for Progress that laid out a blueprint for Latin American economic, social and political development (1961-72), to a focus on basic needs (1973-81), to a stress on economic stabilization and restructuring (1982-1995) (Fox, 1995). A second set of goals was developed for Central America by the Kissinger Commission in 1984. A third set of goals responds to the recognition of the uniqueness of Costa Rica in the region. Thus, for example, to refer to the sector of governance and democracy, for Costa Rica the goal was not to establish democracy, but to strengthen it.

The improvement of governance was originally rather unrelated to the further development of Costa Rican democracy. This applies to, for example, aid efforts to improve tax collection that began in the early 1950s. Governance and democracy were brought closer together in the Alliance period, but the sweeping reforms that the Alliance for Progress intended for Latin America were not hard-pressed in the Costa Rican case, both because the country was already on the same track, on its own, and because it was conceived of as a relatively successful model of economic and social progress within a democratic framework. The next period of assistance was one where no great preoccupations about the future of the country's economic and political development were expressed. Where the two areas were brought the closest together was in the policy period of stabilization and restructuring. The cluster of policies that belong to this period responded to the acute economic crisis of the early 1980s, brought about, inter alia, by soaring debt, declining export prices, and burgeoning, many wasteful, government expenditures, on the one hand, and the severe political crisis in the region brought about by the radicalization of the Sandinista regime in Nicaragua, and by the threat of guerrilla warfare in El Salvador, especially, and also in Guatemala. Costa Rica received unprecedented support from the United States in this period, to sustain its democracy as a beacon in the region, but this time around USAID expended considerable energy and resources in economic and public sector reforms to improve governance. Thus, democracy, stability, economic growth and governance became closely related in policy terms.

This paper will offer an overview of the actions undertaken by USAID in Costa Rica between 1952 and 1995 in the sector of governance and democracy. Some caveats are in order. First, it should be clearly understood that this sector is a conceptual construction, that brings together areas of AID action that could very well be considered unrelated. Second, this paper will not examine one of the key areas of USAID support that, in the view of this writer, was decisive in avoiding an economic breakdown, and consequently an extremely serious

political crisis, that is, the massive funding for economic stabilization. Third, depth of coverage will be bounded by limitations of space and documentation available (of variable quantity and quality). Fourth, using judgment, focus will be made on certain programs or projects and not on others.

## 2. GOVERNANCE AND DEMOCRACY, 1952-1995

According to the documentation received, AID intervention in this sector broadly covered the following areas: public administration (especially tax and customs administration, and cadastral survey), public safety, municipal and community development, trade and farmer unions, justice sector improvement, training (short and long term, academic and non-academic, and policy-specific, especially for state reform), legislative support, and state reform.

Support in the areas of tax reform, customs administration, and cadastral survey began in 1952 (Technical Assistance period), continued through the 1960s (High Development period) and ended in 1974 (at the beginning of the Basic Human Needs and Poverty Reduction period). Tax reform and customs administration became of interest again in the 1980s and then in the 1990s, well into the Stabilization/Restructuring period.

The public safety project began in 1963 (early High Development phase) and continued well into the Basic Human Needs phase (until 1975).

Municipal and community development was emphasized starting in 1970, close to the end of the High Development phase, and continuing (until 1976) well into the next, Basic Human Needs phase, with projects of a diverse nature, although all of them related to an aspiration to take development out of the greater metropolitan area. These, under the general rubric of Civic and Social Research and Development, included the creation and early support of the Instituto de Fomento y Asesoría Municipal (Institute for Municipal Promotion and Advising, IFAM), support for the Dirección Nacional de Desarrollo de la Comunidad (National Directorate for Community Development, DINADECO), a project to upgrade the UCR Law School, and support for democratic labor union development. Support for the latter, now including an emphasis on farmers' unions was again picked up, in 1978, and continued into the early years of the last phase (1984).

Support for improved administration of justice, with an emphasis on criminal justice, began in the last phase, originally with a regional emphasis, and continues today. Support for the Costa Rican legislature has been an AID area twice: first, in 1970-73 (end of High Development and beginning of Basic Human Needs), and second, in the 1990s (somewhat ambiguously related to the ambitious state reform program, archetypical of the Stabilization/Restructuring phase).

From 1985 (Stabilization/Restructuring) on, there has been an ambitious group of training programs and scholarships.

Beginning in the early 1990s, a far-reaching state reform program has been launched and continues.

### 3. OVERVIEW OF SELECTED PROGRAMS/PROJECTS.

#### 3.1 515-0061 PUBLIC SAFETY SERVICES (FY63-FY75)

Cost: \$2.08 million. Status: completed. This was to finance TA, training and equipment to develop an effective police force able to provide stability to the country and protection for its citizens. There is a final (1974) report of the Public Safety Division. The activities and their results were as follows: (1) TA to the Rural Assistance Guard (RAG) in management, communications and vehicular equipment. This was completed successfully. The RAG was created and organized, with legislation passed including career tenure. (2) To foster legislative action to authorize increased budget allocation for RAG personnel and equipment, was not achieved. During the life of the project, at AID's urging, there were spot increases of funds, but budgets of security forces remained inadequate. (3) To foster legislative approval for a tenure system for the Civil Guard (CG) within the Civil Service, was not achieved. (4) To establish a National Police School as a permanent institution was not achieved. (5) To guide the development and operation of the Directorate of Government Communications (DCG) was achieved. The DCG was legislatively approved and placed into operation. This institution was an AID suggestion given the absence of a communications system. However, as of 1974 problems remained, i.e., lack of capacity of local personnel to manage a professionally oriented community organization, and lack of plans for its transition and growth. (6) Development of a system to enforce narcotics control laws. In this case, GOCCR, Dirección Nacional de Seguridad (National Security Directorate, DNS) and GOCCR sensitivities) resisted the creation of intelligence units; something similar occurred with the special anti-terrorist police.

**Achievements:** In addition to the above, by 1974 the equipment, TA and training had contributed to technify and orient the police forces towards increasingly professionalized practices; there was an increase in the numbers of security forces from 4,478 to 5,157; no further increases were necessary at the time, although the need remained to upgrade quality.

**Problems:** a) lack of job security for police other than RAG; b) lack of adequate facilities for training (inadequate infrastructure and insufficient personnel: instructors were themselves trained by the project). GOCCR (Ministry of Presidency) seems not have placed priority status on the solution of these problems. The 1974 evaluation states that GOCCR security forces in the past have been organizationally weak, politically influenced and subject to frequent personnel changes, as well as fragmented into separate agencies to ensure civil control and discourage any threats to the government.

**Update:** The above analysis largely continued to describe reality, but only until 1994, where favorable conditions begin for change, with the passage (unrelated to any AID efforts) of the General Police Law (Ley General de Policía), that provides job stability, career opportunities,

diminishes dispersion of forces, and limits the possibility of creation of special forces to legal enactment. Several achievements remain in place: the communications system operates satisfactorily, thanks in part to a vocation for professionalism that is found in a national association of radiocommunications technicians; the National Police School was eventually created, and has continued to function, albeit with ups and downs according to the priority that the incumbent minister attached to it. The GAR's personnel has not been as stable as was expected, nor has CG turnover been as influenced by political booty effects as popular belief would have. The personnel turnover of the Ministry of Public Security (which has the CG) has been high (complete turnover about every 5 yrs), fundamentally due to adverse labor conditions and low salaries. The recent reforms, however, wish to turn this around, by increasing salaries, using incentives for academic and technical advancement, and upgrading the entry requirements (high school degree and others), all of this coupled with a planned incorporation of new recruits, at 25% every four years, for 16 years. There is also a beginning liaison with the Colegio Universitario de Cartago (CUC), a community college, that is offering a diploma in Criminology. The original project seems to have been good, but its shortcomings may have stemmed from its ambition, and lack of consideration of a historical resistance to professionalize police forces, because employments here have, in part, indeed been in the past political booty at the county level (legislative deputies influencing appointments), and especially the fear of creating the conditions for the establishment of a police state. Thirty-two years after the project's beginning, however, increases of crime have prepared the citizens - and political leaders - for more ambitious changes.

### 3.2 515-0118 MUNICIPAL DEVELOPMENT (FY 70-FY75)

Cost: \$3.6 million. Status: Completed. Loan to assist in the establishment of the Institute for Municipal Promotion and Training (IFAM), an autonomous institution to provide long-term, low-interest loans and technical assistance to the 75 municipalities (81 in 1995) of Costa Rica. The problem description states that CR municipalities have poor administration, limited revenue sources (most revenue is used for salaries, little being left over for investment) and inadequate planning. Lack of credit (long-term, low interest) has been critical in limiting investment possibilities. The outputs of the project were described as: (1) establishment of IFAM; (2) establishment of IFAM credit fund for sublending to municipalities for, inter alia, municipal markets, slaughter houses, equipment for feeder road construction, small-scale electrification, schools, community centers, health facilities, libraries; (3) training of municipal government personnel in administration, taxation, personnel management, public works construction and administration, purchasing, investment planning, financial management, etc. (4) training of IFAM staff in these matters.

#### Achievements:

All of the outputs of the project were achieved, although in varying degrees. IFAM was established as planned, and it has functioned since then satisfactorily as the administrator of the credit fund. IFAM has also worked as a trainer, although here the achievement record is spotty (see comments on problems below).

Problems:

Twenty-five years after its creation, IFAM is about to be closed down. Given the deep AID commitment to the creation and development of IFAM as a vehicle for municipal, especially rural municipal development, which in turn responded to a felt need of Costa Rican *municipalistas*, an inquiry was made regarding the close-down. By and large, it seems, IFAM did almost everything that it was supposed to do: it acted as a lender, as a purchasing agent, as a project proposal reviewer, and as a trainer. The reasons for its shutdown seem to hinge on two ideas: (a) IFAM treated itself financially, as an institution, too well. Its source of funding, initially, included USAID support, but it continued with a portion of the national liquor tax; salaries of personnel were reportedly too high (e.g. the starting salary of an IFAM attorney is higher than that of a government minister). (b) Municipal development, tending towards increased decentralization and autonomy has not been accomplished, mainly for reasons related to the country's political structure and processes, on the one hand, and IFAM paternalism, on the other.

Regarding IFAM's paternalism, there is a body of opinion that the institution's technicians, in general excellent, have leaned toward handing the catch over to municipalities instead of teaching them how to fish for themselves: for example, the considerable expertise IFAM has in project financial management has not been transferred to the municipalities.

Regarding the country's political structure and process,

(a) centralist tendencies have prevailed;

(b) municipalities continue to be underfinanced; this, among other problems, makes it virtually impossible to keep competent functionaries. In 1993, for example, there were about 140 professionals, out of 7000 employees, in the municipal system. The lack of proper finance also makes municipalities, and their politics, hostage to national legislative politics and policies, since municipalities depend on *partidas específicas*, a form of earmarked funds, taken from the national budget, to be used at the discretion of the deputies of the majority party in the Legislative Assembly; under these conditions, a county's deputy can, if he so wishes, bring powerful pressure to bear on, e.g., who will be appointed municipal executive;

(c) the board of directors of IFAM itself has reflected national instead of local politics: all of its members are appointed by the executive branch, for 8-year terms, guaranteeing 4 members to the incumbent party and 3 to the major opposition party. Typical directors have no prior experience in municipal matters, and even less first hand knowledge of municipal problems. Their appointment typically obeys reasons of political booty;

(d) under current conditions, municipal councilmen/women rarely, if ever, would like re-election.

Prospects and long-term effects of the creation of the IFAM:

The bottleneck for municipal development has been political and financial. Reforms have been made to hand over land tax collection to the municipalities, and there is a far-reaching constitutional reform in the pipeline to extend the presidential, legislative, and municipal periods from 4 to 5 years, with municipal councilmembers elected in the presidential/legislative midterm. The latter's chances for success, in terms of passage, are reasonably good. The former is encouraging, although the current cadastral situation leaves much to be desired. Only 60 of the 81 municipalities have a cadaster. The recently approved Law of Financial Reforms addresses this problem, but it will take time.

USAID/CR has tuned in to the times with financial support for a pilot project in the municipalities of Pérez Zeledón, Puriscal and Alajuela for Local Government Decentralization and Strengthening. An initiative of the legislative deputy for Pérez Zeledón, Ottón Solís, in tandem with the Partnership of the Americas program and AID, the project began with the signing of an agreement between AID-ACORDE and the Partnership of the Americas in July 1994, and started operations in August of that year. The backbone of the project is the voluntary handing over by the deputies representing the three counties, the discretionary use, either totally or partially, of the *partidas específicas* to the municipal district councils. The pilot project also includes workshop training activities, technical assistance, and actions towards municipal execution and oversight of services normally provided either by ministries or autonomous institutions. Thus, the Ministry of Public Works and Transportation (MOPT) has decided to hand over to the municipalities road repair, and the social welfare autonomous institution, IMAS, has also decided to go along with municipal distribution of welfare bonds. Although recent evaluations of this project continue to stress the existence of centralist tendencies, not only among national politicians, but in the mentality of municipal officers themselves, successful completion of the project may have a major demonstration effect, and increase the wind in the sails of decentralization. AID in this case is clearly responding to the spirit of the times in Costa Rica, and this response's catalytic effects will be felt in the coming years.

Did IFAM also respond to the spirit of the times? In its decentralizing intention, no, but in its mode of execution, yes. The establishment of IFAM was intended to strengthen decentralization at a time when centralist tendencies unquestionably prevailed in the country. The way in which the institution was designed and set up reflected this. The lesson learned here is that the political context can be overriding. On balance, as IFAM's achievements, unquestionably an observer can point to the public works: two obvious examples are the feeder roads that were built, and the elimination of clandestine, unsanitary slaughter houses and their replacement with sanitary, municipal ones. As a banker, IFAM's accomplishments are acknowledged. As a trainer, a *municipalista* is entitled to hope that over the years, all IFAM's trainees will bring to bear their knowledge and experience regarding municipal development once the financial and electoral reforms mentioned above begin harvesting their fruit. In this sense, there is another lesson learned: one of patience; catalysis need not be a speedy process.

3.3 LEGISLATIVE DEVELOPMENT:

- SUNYA Legislative Development Projects and
- 515-0241: PATS: Legislative Assembly Support

AID's support for the Costa Rican Legislative Assembly has occurred in two distinct instances: the first in 1970-1973: SUNYA Legislative Development Projects (Brazil and Costa Rica) (no project number available)<sup>1</sup> and the second in 1992-1995 under PATS 515-0241: Legislative Assembly Support.

3.3.1 SUNYA Legislative Development Project. The source of initiative for the first project is unclear, although its need was recognized both by legislators and academics (UCR's law and political science schools), who, in addition, participated in the planning stage. Its two main outputs were completed: the codification of all legislation enacted between 1948 and 1970, through a CR Legislative Assembly-Equity Publishing Corp. (Oxford, New Hampshire) contract, and the establishment of a Technical Services Department (TSD) to assist congressmen/women in producing effective legislation.

At the time of a 1987 evaluation, the index was still in use and periodically updated. The TSD continues to function, although it did not consolidate itself sufficiently in its intended role of policy support (issue research and analysis). One factor that was of considerable importance in the lack of the TSD's consolidation as a policy support office was related to fears at the time, within the incumbent staff of the Legislative Assembly, that the new department was going to render them useless. This engendered a crisis that ended, most unfortunately, with the departure of the U.S. coordinator of the project. Today the TSD fulfills basically a legal writing assistance role, because following the crisis, as the TSD grew, recruitment policies privileged the hiring of lawyers not trained in issue research and analysis; and because of matters of domestic political style: legislators tended not to trust the impartiality and confidentiality of the TSD staff, and tended to seek the assistance of assembly employees linked to their own party. Interviewees of the evaluation team expressed a need for AID assistance that concentrated more on technologies (e.g. computerization of archives) than on personnel. This was later picked up by the second project, in the 1990s.

3.3.2 515-0241: PATS: Legislative Assembly Support (Grant for an est. \$1,994,895) was classified, somewhat ambiguously, by USAID/CR as part of the State Reform Program, although it is better viewed as a continuation of the earlier SUNYA effort. Still ongoing, the project's goal has been to "strengthen and modernize Costa Rica's democratic government institutions by solidifying and upgrading the organizational function of the national legislature," and it has been undertaken through a contract with the U.S. Consortium for Legislative Development/Center for Democracy. Among the outputs expected of this project, are included the following: (a) the establishment of a modern library, legislative reference and documentation center, (b) graduate training for legislative advisors in legislative development, operational theory, policy analysis and working techniques, (c) training of legislators and staff in the oversight role of the legislature, (d) participation of legislators and staff in professional conferences, (e) improvement of budget analysis methodologies, (f) development of a Commission for the Modernization of the Legislature.

All of the above outputs have been achieved, and some unexpected results have also come about as a result of this project: (a) in conjunction with the University of Costa Rica, a master's degree program in Parliamentary Management (*Gestión Parlamentaria*), was developed and is functioning; (b) there have been publications of books (e.g. Ramírez-Altamirano, 1994; Solís-Fallas, 1995) and pamphlets, including a directory of legislators combined with a practical guide to the Legislative Assembly (Asamblea Legislativa de Costa Rica, *Directorio y Guía Práctica, 1994-1995*); (c) a program of expert policy support was developed that assists legislators in the drafting of bills.

This legislative support program has been highly successful, and has received extremely favorable reviews from some legislators interviewed. An important item in their evaluation is the extreme care that the Center for Democracy has in not involving itself, nor appearing to do so, in areas which might be considered privy to the legislators as depositors of Costa Rican sovereignty. In this connection, the choice of an intermediate organization between USAID and the Costa Rican Legislative Assembly has proven to be wise, even if more costly financially. The wise personal leadership on the part of the U.S. coordinator has also made possible not only that the TSD has not felt threatened, but that the TSD's cooperation has been engaged. Funding will terminate in April 1996, and the Center for Democracy is pursuing new donor possibilities to continue. The impact of this project has already been felt, in that the Legislative Assembly's capacity has been upgraded.

### 3.4 STATE REFORM PROGRAM

#### 3.4.1 Introduction

The economic crisis of the early 1980s forced Costa Rica's statesmen to revise the state-centric development model that had evolved from the late 1940s on. The revision has gradually (over a 15-year span) taken the form of a comprehensive state reform program that is ongoing. The general orientation is towards diminishing the relative size and economic importance of the public sector, and towards relying increasingly on market signals, both domestic and international. The change in mentality of the country's statesmen, starting with the Monge Administration (1982-86), has occurred in tandem with, and has been reinforced by, expert and financial assistance - and conditionality - of the international financial organizations (IMF, IBRD, IDB), and USAID. With respect to the executive branch (central government and autonomous institutions), USAID's Reform of the State (ROS) Program involves the following<sup>2</sup> :

- a) Budget reform: to improve allocative efficiency, accountability and transparency;
- b) Tax reform: to improve tax administration and collection;
- c) Customs reform: to expedite customs clearance, improve trade information and tax collection, and reduce corruption;
- d) Pension reform: to rationalize different pension regimes and make them fiscally and financially sound;

- e) Labor mobility and public employment reform: to reduce the size of the public payroll and allow greater flexibility in deployment within the public sector;
- f) Privatization/democratization: to downsize the public sector through divestiture and private delivery of non-essential services;
- g) Institutional reform: to enhance operational efficiency of public entities;
- h) Legal/regulatory reform: to improve both market and public enterprise efficiency, and consumer protection;
- i) Financial reform: to reduce the cost of financial intermediation and enhance prudential supervision.

In examining these reforms, we shall rely on the most comprehensive evaluation up to date (Harrison et al., 1994), as our starting point.

#### 3.4.2 Budget Reform

This initiative began in 1991, in order to transform a cumbersome, inflexible budgetary process into an effective management tool to rationalize resource allocation according to plans and programs at the national, regional and sectoral levels; to facilitate evaluation; to use decentralization for responsive budget development and execution; to replace current legislative focus on detailed oversight with a focus on policy issue review; and to test the above with pilot programs in six institutions. The Harrison team found results disappointing, due to the low priority accorded to budget reform, and to technical lack of consensus. A recent report on the achievements of the Figueres Administration (MIDEPLAN, December 1995, p.18), however, informs that there are three bills in the Legislative Assembly to address the issue: one to limit the financing of current expenditure with current income (*Proyecto de Ley de Garantías Económicas*); and the *Proyecto de Ley Orgánica del Presupuesto Nacional* as well as the *Proyecto de Reformas a la Ley de Administración Financiera*, intended to modernize finance administration and increase allocative efficiency.

#### 3.4.3 Tax Reform

According to the Harrison et al. report (pp. 20-22), due to vested interests and political costs, little had been done up to their time of writing (January 1994) in the direction of comprehensive tax reform. Nevertheless, a year and a half later, bipartisan consensus was achieved, and three important laws were enacted: The *Ley de Justicia Tributaria* (Tax Justice Act), treats tax evasion as a felony, and the *Ley de Ajuste Tributario* (Tax Adjustment Act), that, aside from an 18 month increase in the sales tax to 15% (later to come down to 13%), and increasing the tax base, also established a one percent tax on the assets of companies valued at more than thirty million colones. The government expects that the latter, in addition to revenue enhancement, will encourage compliance with income taxes. Finally, the *Ley de Impuestos sobre Bienes Inmuebles* (Property Tax Act) decentralizes property tax collection, with the additional intended effect of strengthening local governments along with increased revenue. (MIDEPLAN, December 1995, pp. 16-17).

### 3.4.4 Customs Reform

As Harrison et al. (p. 22) point out, "the customs service has been on Costa Rica's reform agenda for at least three decades - AID had a full-time U.S. customs team in Costa Rica in the 1960s - with very little impact. Mutually reinforcing inefficiency and corruption have cost importers, consumers, and the treasury tens of millions of dollars each year."

The five basic elements of the customs reform program have been:

1) A new customs law based on the Central American common tariff (CAUCA II), which has been signed by all Central American Ministers of Economy, but which Costa Rica has yet to ratify.

2) Automation of all customs activities. The Harrison et al. team found significant progress in computerization, but neither at their time of writing, nor at this time is it complete. This author concurs with their appreciation that "until there is an operative, integrated national customs network, the full benefits of the reform program in terms of efficiency and reduction of corruption cannot be substantially realized (p. 24)."

3) Construction and modernization of customs facilities, paid for by the GOCR; the Harrison team found significant improvements in customs facilities (p. 23).

4) Reorganization, with stress on decentralization. Results include the reduction of the average time of merchandise going through the system from five weeks to one (p. 23).

5) Training. Here, too, the Harrison team found significant progress. At their time of writing, the majority of customs personnel had received training (over 200).

Overall, Harrison et al. found, inter alia, that passage of new customs legislation was indispensable, among other reasons, to make possible the dismissal of redundant personnel. The incoming Figueres Administration, later, however, indeed did substantially reduce customs personnel. In addition, the *Ley General de Aduanas* (General Customs Act) was passed in November of 1995, whose purpose is to further simplify and modernize procedures, and which also provides definitions of customs-related misdemeanors and felonies, and, in tandem with other legislation, makes fraudulent invoicing more difficult (MIDEPLAN, December 1995, p. 17). The Harrison team - although somewhat sceptical about continuity due to the upcoming elections at the time - also emphasized the need for continued emphasis on customs restructuring. The Figueres Administration has also reported progress in the restructuring of the *Dirección General de Aduanas*, accompanied by computerization of processes, and reforms in oversight (*fiscalización*) and control. The Administration informs of substantial time reductions in the exit of commodities from customs warehouses, progress in the registry and statistical control in all the country's customs houses, as well as the establishment of a computerized system of customs calculation in five main customs houses (Central, Multimodal, Postal, Limón and Caldera) (MIDEPLAN, December 1995, p. 17).

According to a report by AID-backed Fiduciaria de Inversiones Transitorias (FINTRA, October 6, 1995: V-17), a major preoccupation that remains is that, with the phasing out of USAID in Costa Rica, the major role that AID-supported Fundación de Cooperación Estatal (FUCE) has played in customs reform does not yet have a developed counterpart replacement in the *Dirección General de Aduanas*.

### 3.4.5 Pension Reform

As the Harrison et al. report states, by 1989 (this writer would argue earlier) it was clear that the pension systems - excepting only the judiciary's - was financially unsustainable and highly disorganized. Both the GOCR and AID were agreed on the urgent need for reform. Progress in pension reform was included in ESF conditionality, and the formation of a multisector technical group ensued. With AID financial support, a U.S. pension expert was brought to lead studies for reform, observation visits to Chile were made by members of the two main political parties, the private sector and the *Dirección Nacional de Pensiones*. These actions led to substantial consensus about pension reform. The World Bank also supported a pension study and included pension reform as a SAL III condition. The objectives of reform were to "(1) reduce the burden of pensions on the national budget while assuring the system's viability. (2) Simplify the pension system and its administration. (3) Improve supervision of pension operations. (4) Develop private sector options for future retirees." (Harrison et al., p. 47).

Substantial progress had been made the fulfilment of these objectives, but important obstacles remained: opposition from pressure groups, especially the teachers; bureaucratic inertia, in part, Harrison et al. contend, driven by corruption; lack of understanding of the depth of the problem and how to approach it; finally, the previous acquisition of legal rights in existing pension regimes.

After the time of writing of the Harrison et al. report, again, bipartisan consensus brought about, in July of 1995, the passage of the *Ley de Reforma Integral del Sistema de Pensiones y Jubilaciones del Magisterio Nacional* (Teachers' Pensions Reform Act, which covers educators from pre-school to university level), but which met with considerable opposition, in the form of a month-long teacher's strike, which may recur, as agreement has not yet been reached as to what corrections, if any, should be introduced in the law; the law itself has also come recently under intense scrutiny and experts have charged the new teachers' pension plans as financially unsound. The incumbent administration has had to pay a high political price in terms of popularity on account of (although not exclusively) pension reform: Costa Rica's current president has reached the lowest popularity rating of the last 17 years, that is, when the country's economic and debt crisis came to a head. The Figueres Administration, however, contends that the new law establishes a sustainable pensions regime for teachers, and has the additional merit that it allows for the control, in the medium term, of one of the most important triggers (*disparadores*) of public expenditure. In addition to the teachers's pensions reform, another law was passed (*Régimen privado de Pensiones Complementarias* and *Reformas de la Ley de Reguladora del Mercado de Valores y el Código de Comercio*), which provide for the regulation of (private) complementary pension systems. Finally, a bill is in the Legislative

Assembly to reform other pension regimes paid for by the public budget, including the (highly privileged and controversial - DMI) Finance Ministry regime.

### 3.4.6 Labor Mobility and Public Employment Reform

An important component of the downsizing of the public sector is labor mobility. State employment had grown disproportionately over the decades, as Harrison et al., point out (p. 34), from 6% of the labor force in 1950 to 20% in 1986, and had become one of the main contributors to fiscal deficits. A first attempt to address the issue was made during the Monge Administration (1982-1986), with the passage of the 1984 *Ley de Equilibrio Financiero para el Sector Público* (Law of Financial Equilibrium of the Public Sector), to encourage with incentives the voluntary resigning of government servants. The Arias Administration (1986-1990) in turn focused on the reduction of staff both in the Central Government (Ministry of Agriculture and INCOFER, in charge of railroads) and in the decentralized sector (*Consejo Nacional de Producción*, *CNP* and *Instituto de Desarrollo Agrario - IDA*). A far more ambitious labor mobility program was begun in 1991, during the Calderón Administration (1990-1994), which accepted SAL III conditionality of a 25,000 reduction in public sector positions. AID kicked in with substantial funds for financial incentives channeled by FUCE for voluntary mobility in 1991.

According to the Harrison team, substantial progress was made, especially between 1991 and the end of 1993: public employees accounted for only 16% of total employment, in comparison with the 20% of 1986; and not only the direct but also the indirect contribution (e.g., use of office supplies, electricity) of personnel to the fiscal deficit had been reduced (Harrison et al., p. 35). Although the SAL III target remained distant, the team's opinion was that progress was highly significant. The main obstacle remaining was the availability of funds, although rigidities in the civil service legislation and delays in democratization and privatization activities also were important. Harrison et al. conclude, and this author concurs, that AID resources and FUCE administration were decisive in the progress achieved.

The Harrison et al. report's optimism, however, was not matched by a May 1993 evaluation of the labor mobility program conducted in the National Planning Office (MIDEPLAN, 1993). In this report's view, the results achieved so far should be considered modest, although significant, both in terms of the number of jobs eliminated, and of the effect this had on government expenditure (for example, the decrease in government expenditure had resulted not only from the decrease in the number of employees, but also to a "significant fall in the average real salary" (see p. 20 and *passim*). The MIDEPLAN report notes the initial importance of non-voluntary layoffs (due to institutional reorganization, such as in the Ministry of Public Works and the Ministry of Housing, or to privatization, as in the cases of the subsidiaries of CODESA, a state-owned holding company). It also notes how, due to legal difficulties, and political risk aversion, the government reverted to privileging voluntary mobilization, with the financial aid of AID through FUCE. This report caused some controversy, as a reply was issued by FUCE (see FUCE, *Comentarios y Complemento al*

*Borrador Documento MIDEPLAN-Programa de Movilidad Laboral y la Reforma del Estado, n.d.).*

Another study was conducted by the Institute for Social Research of the University of Costa Rica in 1992, stressing, inter alia, the negative impact that the labor mobility program had on public sector unions, due to the decrease in membership that mobility provoked (Valverde et al., 1992).

The Figueres Administration has continued, quite aggressively, considering the political capital spent so far, with the labor mobility program. A further reduction of 7000 employees was expected for 1995, which will allow an increase of personnel in education, health, and security (that need to grow with population - DMI), without, the Administration contends, endangering the goal of a net reduction of 5000 public employees by the end of 1996. As of this writing, however, more union opposition is expected to the labor mobility programs and to closure of public programs and institutions. (MIDEPLAN, December 1995, p. 18). In the course of 1995, embarrassing snags appeared in the mechanisms for prompt compensation for those who are voluntarily, or involuntarily, retired from the public work force, due to the fact that the Constitutional Chamber of the Costa Rican Supreme Court ruled that this compensation could not be disbursed by FUCE - which had worked quite expeditiously - but that disbursement could only be executed through the National Treasury.

Regarding public employment reform, change has been slower. The forty-year old Civil Service Law has hamstrung successive administrations in their flexibility to hire and fire employees and to deliver efficient services. The Arias Administration included civil service reform in its agenda, and it was also included in AID's 1988-89 ESF conditionality programs. AID financed visits by two experts, one French and one U.S., to review draft legislation for reform (Harrison, et al.: 41). The first effort to pass legislation failed, apparently, due to discrepancies within the Calderón Administration, over whether union contracts were to be allowed in the public sector or not. There are also serious legal problems involved in the unification of different employment schemes in different institutions; legal problems could arise even in the case of the hiring of new employees, since there would be - as there is today - unequal pay for equivalent work, in comparison with incumbent employees; the only solution, it seems, is to phase in the effects of any new legal framework over time. To this day, there is a bill for the Regulation of Public Employment in the Costa Rican Legislative Assembly. The author concurs with Harrison et al. (p. 42) in that the degree of change brought about by the bill, once it becomes law, will largely depend on the results of current negotiations with the unions and among legislators themselves.

### 3.4.7 Privatization/Democratization

The term privatization has been used mainly to refer to the process of divestiture of state-owned enterprises. These in turn, are of two kinds: those formed as joint-stock companies, and owned by one state holding company, CODESA, and those that belong to the decentralized public sector, and are subject to the Comptroller General's control. CODESA was created in the

1970s in order to start up industries that the private sector would not risk on its own. Once the industries were on their feet, the idea was, they would be transferred to the private sector. A long story made short, all of the companies created by CODESA did not become viable, and the holding company and all of its approximately forty subsidiaries became an insupportable drain on public finance, chiefly through the Central Bank.<sup>3</sup>

The first movement in the direction of divestiture came in the form of a 1982 letter of intent to the IMF on the part of the Monge Administration. The 1984 Law for the Equilibrium of the Public Sector (mentioned above in connection with labor mobility) included legal authority for privatization, which also became part of the 1985-1990 AID ESF conditionality. A government-appointed commission operated between 1985 and 1988 for CODESA's restructuring, but did not finish its work. Real impetus came with the creation of FINTRA and AID funds were put to work to buy up CODESA's subsidiaries, put their finances in order, and sell them. (Harrison et al.: 29-30; FINTRA [1995], chapter two) To date, the sale of CODESA's enterprises is virtually complete.

Other candidates for privatization are decentralized institutions, such as the National Licquor Factory (*Fábrica Nacional de Licores, FANAL*), which has been a state enterprise for over a century, and the National Insurance Institute (*Instituto Nacional de Seguros, INS*), which was created as a state monopoly in 1928. AID, through FINTRA and FUCE, assisted in developing draft legislation for their privatization. Neither has been privatized yet, however, although INS is undergoing restructuring. In the case of this institution, there was conflicting conditionality, in the form of a contradiction between the deadlines established for its privatization by the original SAL III of the Calderón Administration (30 months) on the one hand, and by the Inter American Development Bank on the other. The IDB had paid for a mission of Chilean experts, who recommended a five-year calendar for divestiture, to which the Calderón Administration had apparently also agreed. Notwithstanding this, by the end of President Calderón's tenure in office, the first two of these five years revealed incomplete accomplishment of the scheduled objectives. The incoming Figueres Administration came to an agreement with the IDB, in this sense: INS would change following GATT rules, which allows for more time for divestiture. In the case of FANAL, there seems to be no strong constituency for or against divestiture.

The term democratization has been used to refer to the divestiture on the part of state institutions of non-essential services. Started during the Arias Administration, AID's contribution to this process has mainly been in the financing of studies that include legislative research and identification of areas for partial divestiture (Harrison et al.: 39). During the Calderón Administration, successful spinning off of auxiliary activities at two health clinics took place, and partially successful divestiture of the retail outlets of the *Consejo Nacional de Producción, CNP*, to four cooperatives, (Harrison et al.: 38), some owned by former employees.

A third form of privatization, that is neither divestiture of state owned enterprises, nor easily classifiable as the divestiture of non-essential services, is the scheme of public works concessions. A General Public Works Concessions Act was passed, also a part of SAL III

conditionality. The general rationale behind the law is increased efficiency in the production and delivery of services, along with a reduction in government expenditure and hence deficit. Government regulation and oversight, however, will not be abandoned.

#### 3.4.8 Institutional Reform

Efforts for institutional reform, aimed at increasing efficiency and effectiveness in the delivery of services, began during the Arias Administration. AID's role took the form of ESF conditionality in 1988, and thereafter in the funding of institutional reform studies through FUCE (most of which were conducted during the Calderón Administration, and later considered unsatisfactory by members of the incoming Figueres Administration). In 1989, then Minister of Agriculture and Livestock, José María Figueres took the initiative to request AID support in the restructuring of his sector.

Although the Harrison team found progress in this area slow, as of January 1994, they make note of progress in the Public Works and Transport Ministry (MOPT) and the railroad institute (INCOFER) in terms of labor mobility (INCOFER was shut down in 1995 by the Figueres Administration- DMI), in the agriculture, housing, security, and health sectors. Serious consideration was given, during the Calderón Administration, and with AID assistance, to the unification of part of the Ministry of Economy, Industry and Commerce (MEIC) (particularly MEIC's office in charge of Central American integration) and the Ministry of Foreign Trade (COMEX). There is not much progress in this last area to date, however. Again, the Figueres Administration has gone further and unified, again administratively, if not legally, MEIC and the Ministry of Science and Technology (MICIT), and is working on further modernization of the foreign trade sector, focusing on the Ministry of Foreign Trade, the Export and Investment Promotion Center (CENPRO) and the free industrial zones (*Zonas Francas*) (MIDEPLAN, 1995).

#### 3.4.9 Legal/Regulatory Reform

3.4.9.1 *The Servicio Nacional de Electricidad (SNE)*. Originally created in 1928 to regulate the private delivery of electricity, SNE's oversight mandate was expanded over the years to the delivery of water, telephone services and petroleum products, in the interest of the consumer. 1990 AID ESF conditionality, as well as SAL II and III conditionality, have all pointed towards the need to ensure the existence of a system of automatic adjustment of rates in all these goods and services "on the basis of objective criteria of efficiency" (Harrison et al.: 50). In terms of support for SNE reform, AID's monetary support has been minimal. Nevertheless, a bill is close to passage for the updating of SNE. (At the time of the Harrison et al. report, serious disagreement existed over SNE's scope of responsibility and its relationship to the Legislative Assembly, to whom SNE must report in its revamped institutional version.)

3.4.9.2 *The Auditoría General de Entidades Financieras (AGEF)*. A

dependency of the Central Bank, AGEF is in charge of prudential supervision. The need for reform basically hinged on the need to strengthen AGEF, both for the public and the private banking sectors. AID's role, although modest in terms of funding, has been important as a catalyst for change. A combination of AID support, and domestic need, propelled the passage of new law, enacted during the Figueres Administration, the *Ley de Reformas Financieras* (Law of Financial Reforms), which strengthened AGEF, now *Superintendencia de Entidades Financieras (SUGEF)*.

3.4.9.3 The *Ley de Promoción de Competencia y Defensa Efectiva del Consumidor*. During the Arias and Calderón administrations, efforts were made (and included in SAL III conditionality) towards the creation of a legal framework for the encouragement of price deregulation, competition and consumer protection. Again with very modest financial assistance from AID, the bill was introduced by the Calderón Administration, although passage was delayed by the request for review by private business associations. The bill became law during the Figueres Administration, and the bodies responsible for the law's implementation have already begun to act, recently imposing heavy fines (by Costa Rican standards) on some firms that have failed quality control testing.

#### 3.4.10 Financial Reform

In 1948, the provisional government of José Figueres Ferrer nationalized the administration of savings and checking accounts, and bought out the major private banks, in order to ensure more equitable credit distribution, and a more development oriented banking system. These revolutionary reforms were enshrined in the 1949 Constitution, and were supplemented by the creation (in 1950) of the Costa Rican Central Bank during the following Ulate Administration. Private banks were allowed to continue to operate, but using their own funds.

Over the years the *Sistema Bancario Nacional (SBN)*, or national banking system came under fire for inefficiency, politicization, and corruption. These criticisms were levelled not only at the commercial banks but also at the Central Bank, that had to bear the burden of burgeoning fiscal deficits and other state business failures, such as those of many of CODESA's enterprises.

With the coming of the economic crisis of the late 70s and early 80s, and with the strong "encouragement" (the term used by the Harrison report, p. 18) of the IBRD, the IMF, the IDB, and AID, the last four administrations (the Harrison team reports on the first three) have been moving towards liberalization of the banking system.

Today it can be stated that the state bank monopoly over the public's deposits is over. A legislative reform of the Central Bank's statutes during the Figueres Administration (a new *Ley Orgánica del Banco Central*) has increased Central Bank autonomy from the executive branch, has added flexibility to exchange rates, and has given access to private banks to current accounts, as well as access to Central Bank *redescuento* (as long as the interested private banks

deposit funds in state banks for preferential lines of credit or, alternatively, open offices in rural areas for this same purpose). (MIDEPLAN, 1995)

With AID playing a catalytic role - financing studies and publications - in the national debate over the transformation of the nationalized banking system, in conjunction with SAL III conditionality, major legislative changes took place in 1995.

### 3.4.11 The Issue of the Parallel State

Perhaps the most disturbing issue, which is related to the gamut of state reforms, is the one of the "rise of the parallel state," that is, the bypassing on the part of USAID of the official institutions and channels for the purposes of reform. With massive USAID funding, new institutions, such as CINDE and FINTRA, were created to accomplish a downsizing of the Costa Rican state institutions, and to wholly or partially transfer functions traditionally in state hands to the private sector (such as CODESA divestiture, or the support for the strengthening of the private banking sector), or at least to increase their market orientation. Endowed with insufficient resources, Costa Rican government institutions were no match for the new, semi-private ones fostered and generously funded by AID. The term "parallel state" was coined in 1988 by a close adviser to President Oscar Arias, and the acrimonious debate that ensued in the country ended in the adviser's resignation. The debate did not confine itself to Costa Rica, but filtered into the U.S. political and academic arenas as well.<sup>4</sup>

Recently, some prominent Costa Rican politicians, who actively played a supportive role in fostering the "parallel state," have expressed, in hindsight, serious misgivings about the convenience of bypassing the official institutional structure of a country when promoting reform. The change of heart comes from the thought that, in a country characterized by democracy and the rule of law, public institutions, if weak, should be strengthened, not replaced by parallel, ad hoc ones: undesirable consequences ensue in the latter case, such as the bypassing (not breaking) of legal rules for monitoring and control of public resources; the sidestepping of the function of political control (checks and balances); and in general the withdrawal of much of the decisionmaking from national (Costa Rican) hands and placing that decisionmaking into foreign (U.S.) hands. No matter the merits of short term objectives, these should not hold sway over the long term benefits that the existence of public, accountable institutions entails. That the "parallel state" did not have catastrophic effects on the Costa Rican institutional fabric, so the argument goes, was a result of the high moral qualities of Costa Rican leaders and AID representatives and personnel.

The question, then, whether the "parallel state" was a good mechanism for promoting USAID's goals, which included the strengthening of Costa Rican democracy, is complex and controversial. It is also counterfactual, and therefore unanswerable scientifically. Any approach is inconclusive. Nevertheless, this author offers the following thoughts.

First, there is no doubt that USAID in the matter of state reform and the "parallel state" exerted considerable, and in some cases perhaps overwhelming pressure. However, AID

did not operate in a vacuum: on the one hand, there was the conditionality of the international financial organizations, such as the World Bank and the International Monetary Fund, which moved in the same direction that USAID was; on the other hand, there were powerful domestic allies, who did not need persuading in regard to AID's goals for Costa Rica, and who perhaps even educated USAID officials in the definition of some of them and in outlining how to go about pursuing them.

Second, there is the question of the relationship between the long-term viability of Costa Rican democracy and the country's capacity to sustain economic growth and the expansion of social welfare. In Political Science literature, there is an acknowledged relationship between the legitimacy of a political system (in this case democracy), and the system's effectiveness in delivering the goods citizens expect of it, both politically (such as personal and collective freedom, public accountability of government officials, and so on) and economically and socially (such as growth and welfare). If a political system ceases to be effective, eventually citizens will proceed from a first phase of withdrawal of their specific support for elected officials to a second phase of withdrawal of support for the system itself, bringing about a crisis in the legitimacy of, in this case, democracy itself. Consolidated democracies can withstand protracted crises of effectiveness, however, because the legitimacy of the system is firmly entrenched in the minds of its citizens. This, it has been persuasively argued, is the case of Costa Rica, that withstood an excruciating crisis of effectiveness in the late 1970s and early 1980s.<sup>5</sup> There is no precise way to tell at what point a crisis of effectiveness will bring about a crisis of legitimacy in a consolidated democracy (or in a weak one, for that matter, although it certainly is faster).

USAID - in the context of the severe Central American crisis of the 1980s - sought to bolster Costa Rican democracy by massive funding for economic stabilization, and, *inter alia*, by forcefully promoting reforms. The reforms were considered indispensable for the long-term viability of the Costa Rican economy, and hence, welfare. Although the country's institutional fabric was not conducive to rapid change, and, moreover, much of the country's political leadership was not attuned to the new paradigm of stabilization and development, and was fearful of its consequences, AID, with some influential Costa Rican allies, decided to go ahead anyway. This was a route of high risk, but AID's funding provided a sturdy cushion to lighten the burden that the reforms - again, also part of the international financial institutions' program - would impose on the Costa Rican people and political system.

There remains the question of whether AID's parallel state's brushes with Costa Rican sovereignty were appropriate. This writer thinks that, as a rule, any foreign aid agency, bilateral or multilateral, if firmly convinced of the route a recipient country should take, should expend considerable effort on persuasion, and much less on pressure. This is all the more true if the recipient country is a democracy. All has ended well, so far, in the Costa Rican case, because of the firm legitimacy of the political system, because of the self-restraint domestic leaders and foreign advisors exercised, and because of the considerable financial cushion provided by USAID. This financial backing should not be underestimated. For some, it postponed making hard but necessary choices of adjustment; for others, including this writer, it gave necessary

breathing space to the country's democratic political system. The lesson learned for AID should be that tampering with the political and institutional fabric of a recipient country should be avoided. The lesson learned for many, perhaps too many, Costa Rican political leaders is that they should lead, and as statesmen should, thinking, as the saying goes, of the next generation and not the next election.

### 3.5 TRAINING PROGRAMS

#### 3.5.1 515-242: COSTA RICA PEACE SCHOLARSHIPS (FY 87-FY89)

Cost: \$20.4 million. Status: Inactive. Background: CAPS/CR originated with a regional fund (US\$225 million), CLASP I, an FY 83/94 grant. CLASP consisted of two funds: CAPS 597-0001 (formerly 596-0130) a continuation of the 5980622 Caribbean Basin Scholarship Fund FY 82 for CA. CAPS' allocation was \$170 million to train 12,500 Central Americans in the US. The CR Peace Scholarship Fund was the CR fund within the CAPS.

The Rationale for CLASP I included the following considerations: a) "Soviet and Soviet bloc political influence in the region has been given attention by the GAO (this originated the 598-0622) and the Kissinger Comision and an expanded US training is seen as a way to abate this comunist influence". b) "Lack of trained individuals as a development constraint." c) AID's "current policy actively promotes a substantial increase in training". The conceptual origins of the CLASP are found in 3 key studies: a) Report of the National Bipartisan Comission in CA. b) NBBCA/GAO audit "US and Soviet Bloc Training on LA and Caribbean students: Considerations in Developing Future US programs" and c) an audit conducted by the AID Inspector General. " AID's Participant Training Program can be Made More Effective" (Audit Report 85-08).

Project Description: CAPS was unique compared to other training programs: "The recruitment and selection process focused on the target groups of women (at least 40% of participants), minorities and the socio economically disadvantaged (at least 70%). 20% of part would train under long term programs. At least 20% of part would be placed in black colleges. The "Experience America" component would give the oportunity to know American culture first-hand and to become involved with local organizations which provide the impetus for development and growth at the local level. Finally the politically and economically elite would be excluded from training opportunities under CAPS.

Evaluation: An analysis of the above, provided in the CAPS II proposal states: "It exceeded project bench marks (the same as CAPS which are the same as CLASP). In addition short term participants acted as change agents. Long term participants had no problems in getting a job. The economy of CR has flourished in the 80's due in part to the educational/skill levels of its labor force".

In addition, there was an evaluation of CLASP I that used as study cases, Costa Rica and Guatemala, and the scholar was the basic unit of analysis. The results were: a) Employment.

Trainees advanced professionally to some degree as a result of training. The least successful were long term students trained in new areas. b) Perception of US. They changed significantly for those who had experiences living in small US communities. c) Community involvement. Short term participants were the most likely to introduce changes aimed at the development of their local communities. As they were gone only a short time their established position in the community did not change. d) Contacts. For at least 3 years the contacts with US families were expected to remain. e) Leadership. Missions successfully selected leaders, however the taking of a leadership role by a trainee upon return depends on: age (the youngest the least regarded as a leader), place of residence (marginal urban communities do not facilitate the leadership role), length of training. More time should be allowed for achieving this role.

A Lessons Learned study of the CLASP found the following results: 1. Missions had difficulty in putting into operation new concepts such as Experience America, with disadvantaged groups. 2) The combination of a general objective statement and a number of highly specific requirements encouraged missions to develop programs to meet the guidelines rather than to meet the needs of the country and participants. The problem of adhering to the structure without a clear sense of purpose is manifested in weak training plans. 3) There were many people involved in the project. Some continuously and directly and others temporarily. Special orientation should be given to obtain objectives. Therefore, the program should rely on clear and concise objectives rather than numerical targets to guide mission implementation. 4) The summative evaluation was not planned and financed, as it should be in the future.

### 3.5.2 515-0254: CAPS/CR II (FY 90-FY96)

Cost \$23 million. Status: Active. Background: The origin of this project was CLASP II. The strategy of CLASP II was the following: The basic interest and structure of CLASP I remains. The changes are clarification of objectives, implementation guidelines, and increased emphasis on selecting and training current and potential leaders, and an increased mission responsibility for country needs analysis and program implementation.

CLASP II was designed to have a long term impact in 2 factors critical to improvement of socioeconomic conditions of the region. a stable social and political environment and a educated and skilled population with capable leaders to manage and implement programs and policies. In addition, it was mentioned again as in CLASP I that one of the most effective means of counteracting the Soviet bloc influence in LA is to promote long term stability through broad-based economic and social development. The foundation for stability and growth are a national system of free enterprise and democratic pluralism; a system to which the participants will be exposed in the US.

Specifically, CAPS II would emphasize the leadership factor among all the selection factors to maximize the impact of high cost US based participants. The basic premise that would remain was that priority would be given to the socially deprived. The concentration would be in 4 CA countries (as it was in CAPS I), reflecting the continuing US foreign policy interest in a peaceful

transition to democracy in the region.

The justification of CAPS/CR hinged on the following considerations: a) Success of CAPSI/CR; b) Political justification. The project would build on Costa Rica's long-established democratic tradition, but would expose the participants to the possibilities of action and initiatives at the local level in the US. Democracy is not simply the act of voting every 4 years, but involves broad-base participation in the ongoing life of a country at all levels. The continual development of a free market economy in CR would assure that the social economic justice that has characterized the country will continue to be an element of its national fabric. Knowledge of a free market enterprise would be encouraged.

Rationale for chosen areas (In CAPSI/CR areas were not defined). This was as follows:

a) Education. Education is a high priority for CR and it is recognized as a condition for social development. Teachers and school administrators are perceived by their communities as leaders mainly in rural areas. They also contribute to the development of democratic values in the students and the influence of these public servants is undeniable. b) Natural Resources. Both the Mission and the GOCR had a high commitment with natural resources management and conservation. c) Local Public Sector. Municipal Governments are responsible for addressing important local problems. CAPS II, consistent with Mission policy to support GOCR decentralization efforts, will organize short term groups for local municipal leaders. Local officials in CR face many of the same problems as their US counterparts: solid waste, management and disposal, clean water sources, administration and planning. d) Community action/participation. A variety of community development organizations exist throughout CR. Most function at the local level and play roles of major importance in the development of their communities and areas. This is a primary target group given their involvement in their communities and the potential benefits of their participation. e) Private Sector: Economic stabilization and fostering of economic growth were mission goals. There were ongoing projects in this area to stimulate export development. In addition, note was made of the dramatic growth of non traditional exports and their major impact in the CR economy.

#### Observations.

This project was more precise in the use of concepts and the selection of candidates from the elite group ("highly placed individuals and members of their families with whom AID and the USA has specific mutuality of interests") was discouraged. The CAPS II/CR agreement (AID/CR) was definitively more specific and detailed than the first one (CAPSI/CR). It established more clearly the financial aspects, conditions (*no son intervencionistas*), evaluation terms, procurement and roles and responsibilities. A general constraint which merits attention in future programs is in the area of follow-up support, which is needed.<sup>6</sup>

Comments: The final report prepared for USAID/CR by a consulting firm evaluating twenty years of training,<sup>7</sup> rates the program a success, in terms of knowledge and skills acquired, enhancement of the trainees' general capacity and world-view, and in terms of the trainees' impact upon their return to their communities and institutions. An additional element for the

success of the program was the choice of choosing socioeconomically disadvantaged leaders for the scholarships. This writer's judgment is that the CAPS training programs have had, and will continue to have a far reaching impact on Costa Rican society. First, there is the significant upgrading, at different levels, of the working population's capacity. Second, much of the training was specifically related to areas of economic and social development. Third, the advantages of democracy on the one hand, and of free enterprise on the other, were experienced first hand by the scholars in a country different than their own. Fourth, lasting ties of friendship were developed between citizens of both nations.

#### 4. CONCLUSION

In the period 1950-1995, USAID has made significant contributions to the improvement of governance in Costa Rica, and thus, to the strengthening, over the long term, of the country's democratic institutions. Most of the time, the Agency exercised a discrete role of intellectual leadership and financial support, oriented towards incremental improvements in specific policy areas. Success was more often within reach when intellectual leadership was translated into persuasion and the winning over of the minds of the country's leaders. Political snags were rare, but when they appeared, they tended to have an abortive effect on the programs and projects. Thus, a key lesson to be learned when dealing with governance-related programs and projects, is that the institutional fabric and political environment of the country should be closely examined, and work should be conducted, as much as possible, within the confines of that fabric and environment. USAID should harbor no illusions about setting out blueprints in the grand manner in which General Macarthur set out his for postwar Japan. Particularly in today's world, less is more.

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## ENDNOTES

1. See Creative Associates International, Inc., *A Retrospective of A.I.D.'s experience in Strengthening Democratic Institutions in Latin America, 1961-1981* (Contract No. PDC-1406-I-000-4055), September 1987, pp. II-12 to II-15.
2. USAID/CR, *A.I.D. Evaluation Summary. Reform of the State Program, Funded under 515-0241 Policy and Training Support*, August 1994, p. 3.
3. See Claudio González-Vega and Víctor Hugo Céspedes, "Costa Rica," in Simon Rottenberg (ed.), *Costa Rica and Uruguay* (Washington, D.C.: The World Bank, and New York: Oxford University Press), pp. 118-120.
4. For example, see Tom Barry, *Central America Inside Out* (New York: Grove Weidenfeld, 1991), pp. 126-130; and Lezak Shallat, "AID and the Secret Parallel State," in Marc Edelman and Joanne Kenen, eds., *The Costa Rica Reader* (New York: Grove Weidenfeld, 1989), pp. 221-227.
5. Mitchell Seligson and Edward N. Muller, "Democratic Stability and Economic Crisis: Costa Rica, 1978-1983," *International Studies Quarterly*, Vol. 31, No. 3, September 1987, pp. 301-326.
6. Creative Associates International, Inc., *USAID/Costa Rica, Training Impact Evaluation, 1974-1994. Final Report*. September 16, 1994.
7. Ibid.