

60432

Draft for Comments: Not for Citation

U.S. Aid to Costa Rica: An Overview

James W. Fox

Agency for International Development
Center for Development Information and Evaluation

March, 1996

a

Table of Contents

I. Overall Resource Levels	1
II. Programs and Approaches	2
a. General Approaches	2
b. Tools and Programs	2
c. Resource Levels	4
1. Pre-1961: The Technical Assistance Mode	4
a. General Approach	4
b. Programs and Sectoral Focus	5
c. Other Donors	7
2. High Development: AID and the Alliance for Progress (1961-72)	7
a. Historical Setting	7
b. General Approach	8
c. Programs and Sectoral Focus	10
d. Other Donors	11
3. Basic Human Needs and Poverty Reduction (1973-81)	12
a. General Approach	12
b. Programs and Sectoral Focus	13
c. Other Donors	14
4. Macroeconomic Restructuring/Reactivation (1982-94)	14
a. Historical Setting	14
b. General Approach	14
c. Programs and Sectoral Focus	16
d. Other Donors	19
5. The Conclusion	19

I. Overall Resource Levels

Altogether, the U.S. government provided slightly more than \$1.7 billion in direct bilateral aid to Costa Rica over the fifty-year period 1946-95. Table 1 provides the year-by-year resource levels for the various types of U.S. Government assistance to Costa Rica since 1946. (In constant 1994 dollars, the total aggregates to \$2.9 billion, as shown in Table 2.) The tables show only direct bilateral aid from the United States. This understates U.S. assistance because it excludes indirect flows of several sorts:

- regional activities funded through USAID's Regional Office for Central America and Panama (ROCAP), totaling some \$760 million. Costa Rica's share might be roughly estimated at one-fifth of the total, or about \$150 million.
- centrally funded activities from USAID/Washington. The amount of such flows for particular activities tends to be relatively small in magnitude, but one might conjecture a total of \$100 million or so.
- funding through multilateral organizations. Through 1993, Costa Rica had received \$903 million in loans from the World Bank group, \$1,720 million in loans from the Inter-American Development Bank, and \$27 million in grants from United Nations programs. All these multilateral agencies depend upon U.S. Government support, ranging from 20-25% for IBRD and UN programs, to half for IDB loans through its Fund for Special Operations. Nevertheless, most of the flows from the multilateral banks are not foreign aid in the usual sense. The banks obtain most of their resources by using guarantees by member countries to raise funds in capital markets to be on-lent at commercial interest rates.

Altogether then, bilateral U.S. aid to Costa Rica aggregates to more than \$2 billion in current dollars, or nearly \$3 billion in constant 1994 dollars. The latter figure represents nearly \$1,000 for each Costa Rican citizen living in 1994. Costa Rica was a favored recipient of U.S. aid, with overall one of the highest per-capita levels of aid in the world.

The United States has been the primary donor to Costa Rica during most of the period. During the 1950s, it was the almost exclusive source of grant funding. Other bilateral donors became active in the 1960s, and the U.S. share of concessional aid (Official Development Assistance, or ODA, which includes grants and "soft" loans with more than a 50% grant equivalence) seems to have steadily and gradually declined during the 1970s. By 1979-80, the U.S. provided less than 10% of all concessional aid. U.S. dominance reappeared during the 1980s, as the massive balance of payments support brought the U.S. share back to 60-70% of

concessional aid. Table 3 shows the breakdown of ODA and of non-concessional flows from donor countries and multilateral agencies since 1979. Data for earlier years are not available.

II. Programs and Approaches

a. General Approaches

U.S. economic assistance to Costa Rica has gone through four distinct phases. Each phase represented a different answer to the question: What is economic development and how is it achieved? The four phases were:

- Technical Assistance, 1946-61. The earliest programs gave the answer that technical knowledge was the key, and focused on transfer of knowledge through foreign experts and training of Costa Ricans.
- High Development, 1961-72. By 1961, the answer was broadened to the macroeconomic concepts of savings and investment, internal and external balances, as well as sociological concepts about modernization and "takeoff." The public sector needed to invest more in infrastructure, health, education, and agricultural research and extension, and needed to collect more taxes to do so. A dynamic public sector would energize a conservative private sector.
- Poverty/Basic Needs, 1972-81. Disillusion with macroeconomic concepts, and with the apparent failure of macroeconomic growth to "trickle down" to the poor sectors of society, set in during the 1970s. The United States retreated to a concept of development as direct help by government agencies (often working together in "integrated rural development" projects) to the poorest people without regard to macroeconomics.
- Stabilization/Restructuring, 1982-93. The tidal wave of macroeconomic imbalances in the early 1980s led to a renewed focus on macroeconomic balances, together with a concern for microeconomic efficiency that had been lacking in the 1960s and 1970s. Also, the actors had changed hats. The force holding back progress became the heavy hand of government, stuck in its traditional bureaucratic mold, and the force requiring liberation was the potentially dynamic private sector.

b. Tools and Programs

In its bilateral programs in Costa Rica, USAID used a variety of modalities. The seven terms below are important categories of funding:

1. **Grants.** Most small projects and most technical assistance are provided via grants. Usually, this involves the signing of a project agreement, or ProAg, between USAID and some government agency, usually the ministry of planning.

2. **Loans.** Until the mid-1980s, most major projects were funded by loans, on soft terms (usually 40-year maturity with interest rates of 2 and 3%). Because they involve an obligation to repay by the government of Costa Rica, loan agreements require ratification by the legislative assembly. After the debt crisis, USAID shifted to a pure grant basis for most of its assistance.

3. **PL-480.** U.S. Public Law 480 provides for disposal of "surplus" U.S. agricultural products on concessional terms.

Title I (provided to Costa Rica from 1982 to 1992) provides concessional terms for commercial sales, thus providing temporary balance of payments support. For example, the U.S. provides wheat to the GOCCR. This wheat is sold by the GOCCR at commercial prices through commercial channels. The GOCCR's repayment obligation to the U.S. government is over 20 years, so the government has use of these funds, called "local currency counterpart funds" for the time period until the obligation to the U.S. is due. Such counterpart funds are typically jointly programmed by the U.S. and the GOCCR.

Title II provides for donations of agricultural products for specific purposes. Typically, such programs in Costa Rica have been administered by CARE or Catholic Relief Services, and have included school feeding programs and maternal/child feeding programs targeted at poor families.

4. **Housing Investment Guaranties (HIGs).** HIGs are mortgage loans for housing projects or related urban infrastructure. Funds are borrowed commercially in the United States, and relent for mortgages on newly-constructed houses in Costa Rica, with USAID supervising the housing construction and guaranteeing repayment to the U.S. creditors.

5. **Development Assistance (DA).** DA is a funding account in the U.S. budget that provided all USAID funding before 1982. In 1976, the purposes for which DA could be spent were sharply narrowed to focus most funding on poverty-related activities in health, education, agriculture and family planning. Traditionally, DA allocations have been made by USAID without State Department involvement.

6. **Economic Support Funds (ESF).** ESF is a different funding account from DA. ESF funds are managed by AID, but with allocation decisions and policy guidance provided by the State Department. Until 1982, nearly all ESF funds went almost exclusively to the Middle East. After that, Central America became a major user of ESF. All of the balance of payments funding to Costa Rica came from the ESF account.

7. **Local Currency Counterpart.** AID funds that are used for commercial imports by the private sector (PL 480 Title I, and ESF balance of payments funding) give rise to counterpart funds. The private sector importer deposits colones in a bank and receives the dollars or the imported commodity. In Costa Rica, these colon deposits became a major source of AID activity during the 1980s, and funded most of the export promotion, private banking and privatization programs. Until the late 1980s, the unspent balance in the colon accounts earned interest at

commercial rates, thus increasing the amount available for programming.

c. Resource Levels

The level of resources and staffing provided by the U.S. Government also differed sharply in each phase. Chart 1 shows the level of foreign national (usually U.S.) staffing in Costa Rica of USAID or its predecessor organizations. Chart 2 shows the average annual level of resources provided during each phase.

1. Pre-1961 -- The Technical-Assistance Mode

a. General Approach

Official U.S. Government technical assistance activity in Costa Rica began in 1942 under the auspices of the Institute of Inter-American Affairs, an affiliate of the State Department. Initial efforts involved assistance to public health and to agriculture (encouraging production of fruits and vegetables to feed U.S. troops in Panama). After the end of World War II, agricultural technical assistance continued on a unilateral basis until 1948, when a bilateral agreement was signed establishing the Servicio Tecnico Interamericano de Cooperacion Agricola (STICA), to be operated jointly by the two governments. Health assistance ended in 1947, but was renewed in 1951, when the Servicio Cooperativo Interamericano de Salud Publica (SCISP) was established.

Until 1950, U.S. assistance had been ad hoc, without a formal foreign aid organization nor a conceptual commitment to foreign aid. Such a commitment came with the Point IV program, authorized by Congress in 1950. (The name came from its being the fourth point of the program enunciated by President Truman in his inaugural speech in 1949: "Fourth, we must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas." For some reason, the name Point IV stuck.) The basic principles of Point IV were as follows:

- technical cooperation originates with a formal request from a government for such a program;
- all projects are based on agreements planned, developed and signed by representatives of both governments;
- programs are technical exchanges, not loans or donations. U.S. resources are to be used for 1) salaries and expenses of U.S. technicians; 2) costs of training of Costa Rican technicians; and 3) materials used in demonstration projects;
- costs are to be shared, with the Costa Rican government providing working facilities, and counterpart technicians; and

- projects are of finite duration, with programs turned over entirely to the host government once necessary training is completed.

Thus, U.S. assistance operated during the 1950s largely as a technical-assistance effort, providing experts in key sectors. U.S. funding in Costa Rica averaged about \$1 million per year during the decade, for a total of \$9.9 million. Table 4 provides a sectoral breakdown of U.S. assistance. Agriculture (\$3.6 million) and health/sanitation (\$2.7 million) were the primary concentrations of U.S. assistance, together accounting for 65% of total aid. Public administration and education, each with 8% of the total, were next in priority, followed by small amounts for transportation, industry, labor, and housing. The cost of technical assistance per foreign expert provided was dramatically lower than at present. The number of U.S. staff members during the 1950s averaged 30 persons.

The major exception to aid as technical assistance was the funding of the Costa Rican portion of the Pan-American highway. U.S. funding of this infrastructure project was not carried out by any aid agency, but by the U.S. federal roads agency. Altogether, \$50 million was spent on the Costa Rican portion of the road, of which more than \$36 million was spent during the 1950s. Most of the remainder was spent in the late 1960s in rebuilding portions of the road. While the road was conceived as part of a multinational network, its importance as a domestic road surely far outweighed its importance for international transit traffic through Costa Rica. In 1972, the United States finally abandoned the idea of completing the road through the missing link, the "Darien gap," in southern Panama. The extremely high cost of that portion, combined with the likelihood of transmission of hoof-and-mouth disease from South America northward as a result of completion of the road, sealed its fate.

b. Programs and Sectoral Focus

Agriculture. During the early days, STICA concentrated on establishing an agricultural extension service and 4-S clubs (comparable to U.S. 4-H clubs) to transfer technology. At the end of 1955, the extension service had 30 agencies around the country, and its management was transferred from STICA to the Ministry of Agriculture. STICA had helped develop irrigation for 10,000 hectares, and erosion control for 20,000 hectares. Some 158 4-S clubs had been established. At that point, STICA began concentrating on agricultural research. A contract with the University of Florida also began in 1955, for both research and training of Costa Ricans. The activities supported during the 1950s included:

- coffee research, which demonstrated the importance of trace minerals such as boron, manganese and magnesium in much of Costa Rican soil, and development of sprays and spray schedules for control of "ojo de gallo" on coffee plants;
- pasture and pasture improvement projects, with techniques to measure productivity such as periodically weighing cattle; and
- a wide variety of agricultural research and extension projects, including coffee technology,

irrigation, and soil conservation.

The STICA activities were generally relatively unsophisticated. Nevertheless, they introduced a variety of "modern" techniques that were highly profitable for the farmers using them. Because they were quite profitable, they were disseminated rapidly among the farmers. STICA also tended to identify and work with the most progressive farmers. Often these were among the larger operators, whose techniques were imitated by other farmers.

Health/Sanitation (\$2.7 million). U.S. assistance in health in the early years operated through the SCISP, which was terminated in 1962. The main areas of work were water and sewer systems, health centers, and epidemic control. Some help was also provided for nursing education and slaughterhouse design. Significant activities included:

- U.S. advisory services for the first two modern water systems, including fluoridation for San Jose (the first in Latin America), design of an integrated water system for the meseta central, and designs for building community water systems (which were being built in 20 communities per year in the late 1950s).
- help with the design and construction of 10 health centers and planning for the Hospital de Ninos (a U.S. Export-Import Bank loan of \$2 million was also provided for the hospital). Emergency inoculation campaigns were also financed in 1956 for polio and in 1957 for yellow fever.

Public Administration (\$0.8 million). Activity in this area included studies, foreign advisors, and visits abroad by Costa Ricans. U.S. aid financed studies of tax administration and local government. The United States helped create the central statistics office and gave advice on establishment of a civil service structure. In 1959, "public safety" programs, including police training and internal security training that were to continue until 1973, were begun.

Education (\$0.8 million). U.S. assistance mainly involved foreign advisors and sending Costa Ricans for training in U.S. institutions. The three main areas were:

- assistance to vocational education programs in Desamparados and Heredia, and assistance in establishing vocational schools in Liberia, Limon and San Isidro del General, over the 1955-62 period.
- assistance to the University of Costa Rica (UCR) begun about 1956, initially in teacher training through a contract with the University of Florida. In 1960 a program with Louisiana State University helped establish the medical school at UCR. Assistance was also given in business administration and applied research in economics.
- limited help to teachers' colleges.

Industry (\$0.6 million). This seems to have included advisors on industrial development, though

specifics are lacking. In 1957, the U.S. helped establish, together with the UCR, the chamber of commerce and ANFE, an industry information center. This center contained a library and technical experts, and it undertook a series of industry studies in the late 1950s.

Transportation (\$0.4 million). Technical assistance was provided for construction of two airports, including El Coco, and for modernization of the two seaports. An advisor did a study of the Pacific railroad. Help was provided in 1957 to help establish an airplane maintenance center. In the late 1950s, advice and planning on rural road construction were provided.

Housing (\$0.3 million). U.S. advisors helped establish(?) INVU around 1956, and helped INVU develop self-help housing programs and begin community planning. Later help was provided on construction codes and zoning regulations.

Labor (\$0.2 million). Starting in 1957, training was provided to labor leaders and to employees of the Ministry of Labor.

c. Other Donors

Funding from other sources during the 1950s appears to have been small. No data are available for other bilateral donors. The UNDP provided \$1.1 million through 1961, and other U.N. agencies provided \$0.4 million. In the area of non-concessional financing, the World Bank committed \$17.3 million, and the U.S. Export-Import Bank lent \$19.4 million. The Inter-American Development Bank and the Central American Bank for Economic Integration did not yet exist.

2. High Development: AID and the Alliance for Progress (1961-72)

a. Historical Setting

By the end of the 1950s, the era of "economic development" had arrived. The Marshall Plan had been viewed as a success in reviving Western Europe's economy much faster than anyone had expected. Western European economic integration was proceeding and the free trade in the region seemed to have been an important factor in its growing prosperity. The post-World War II focus on de-colonization had evolved into a worldwide war on poverty. The United Nations agreed that the 1960s would be the "Decade of Development."

In the United States, foreign aid had been a campaign issue in 1960, with John Kennedy calling for an expanded aid effort aimed at fighting the threat of communism through poverty reduction in developing countries. In March 1961, President Kennedy sent Congress the blueprint for increasing aid, and creating the U.S. Agency for International Development, a considerable expansion from its predecessor, the International Cooperation Administration. U.S. interest in the communism/poverty issues in Latin America was particularly acute, as the riots during the trip of Vice-President Nixon during 1958 and the Cuban Revolution of 1959 had become factors in

the public mind. Together with its proposal for creating USAID, the Kennedy Administration in March 1961 also proposed the creation of a multilateral Alliance for Progress in the Western Hemisphere, and the establishment of a new financial institution, the Inter-American Development Bank.

One of Kennedy's leading advisors, W.W. Rostow, was particularly influential. Rostow's metaphor of the "take-off" captured the imagination of many. It encapsulated his view that the important thing was to eliminate the strictures placed on economic growth by traditional attitudes and interest groups. Once these bonds were broken, mass education and modern technology would make economic growth almost automatic, as the economy took off into the blue skies of modernization. The apparent success of "operation Bootstrap" in Puerto Rico in the 1950s also buttressed this optimistic view. Tedoro Moscoso, the father of Operation Bootstrap, was brought on as U.S. Coordinator for the Alliance for Progress and head of USAID for Latin America.

This view of quick-and-easy modernization went together with a belief in the possibility of government as the modernizing force, and of the private sector as a reluctant partner in modernization. The Rostow view (here he was joined by many economists, including senior USAID economists such as Hollis Chenery and Alan Strout) also saw investment as the key determinant of economic growth. Developing countries were poor because of low investment rates, and one could predict economic growth rates by knowing the investment rate. For many, the incremental capital-output ratio, or ICOR, usually estimated at between 3 and 4, mechanistically related investment and growth. In this formulation, government investment in infrastructure would be the leading sector, with private investment following in its train as new opportunities for profitmaking were created.

b. General Approach

The Alliance required Latin American governments wishing to participate to undertake a variety of actions, including:

- establishing a national development plan;
- carrying out land reform to redress the perceived latifundia/minifundia problem;
- undertaking tax reform to finance modernization;
- instituting mass education, to reach all primary-aged children by 1970;
- establishing health and low-income housing programs;
- raising investment/GNP ratios to speed growth to at least 2.5% per capita, with "more equitable" distribution; and
- regional economic integration.

Country performance under the Alliance was to be monitored by a committee of the Organization of American States, the *Comite Interamericano de la Alianza para el Progreso*, or CIAP.

Development thinking at that time, and the Alliance in particular, was strongly influenced by the "development planning" concept. The apparent success of economic planning under

communism, the memory of the depression, and a faith in technocrats led to a belief that economic development required substantial government leadership, and that reliance on private markets would only lead, if not to stagnation, at least to cyclical instability and to maintenance of the old order, where oligarchies controlled most of the resources.

Costa Rica responded to the new ideas by establishing a national planning office, the Oficina Nacional de Planificacion, or OFIPLAN (later to become the Ministerio de Planificacion), and the Instituto de Tierras y Colonizacion (ITCO), a land reform agency later changed to the Instituto de Desarrollo Agropecuario (IDA). It also rapidly expanded government programs in social and economic infrastructure with financing from the newly created Inter-American Development Bank (IDB) and Central American Bank for Economic Integration (CABEI). Costa Rica initially resisted economic integration with the rest of Central America in a Central American Common Market, but the combined pressure from the U.S. Government and from the "integracionistas" led by Raul Prebisch at the U.N. Economic Commission for Latin America, eventually proved irresistible. In 1962, the Orlich administration agreed to join the CACM.

With the creation of USAID, the U.S. shifted from providing grant funding to a combination of grants and "soft" loans. This combined approach remained in place until the mid-1980s, when USAID shifted back to almost entirely grant funding. The standard terms for loans were a maturity of 40 years with 10 years of grace, at an interest rate of 2% during the grace period and 3% thereafter. As the procedures developed in the 1960s, grant funding was reserved for small programs, for technical assistance and for experimental activities. Major projects were to be loan-funded. Both grants and loans required approval of the government of Costa Rica in the form of a Project Agreement (ProAg) or a Loan Agreement. ProAgs generally received only limited review by OFIPLAN, while loan agreements required legislative approval and were more carefully scrutinized by the executive branch.

Grant programs were generally financed on a year-to-year basis. Loans were multi-year commitments usually for a minimum of several million dollars, and were developed after approval of a proposal in Washington and design of a lengthy document outlining the proposed activities, project goals and implementation arrangements. Table 5 shows the loan projects approved during the "high development" phase. The loans account for about 70% of USAID bilateral expenditures during the period. Another \$30 million in grant funding was provided through small projects and technical assistance, and about \$10 million in PL-480 Title II commodities was also provided.

Table 5

Major Projects, 1962-72

Implementing Agency	Purpose	Amount	Date
BNCR	Agricultural Credit	5.0	Sept. 1961
SNAA	Metropolitan Water Supply	3.5	1961
BNCR	Agricultural Credit	5.0	July 1963
INVU	Slum Replacement	1.9	1963
ICE	Cachi Hydroelectric	1.5	July 1963
SNAA	Metro. Water (add-on)	1.3	1963
GOCR	Highways	2.1	July 1963
Pvt. Sector	COFISA-private lending	5.0	1963
GOCR	Cadastral Survey	1.6	Oct. 1963
GOCR	Irazu Volcano Equipment	1.3	Jan. 1965
INFOCOOP/GOCR	Rural Electrification	3.3	Oct. 1965
GOCR	Malaria Eradication	1.0	1966, 1968
BNCR	Agricultural Credit	5.0	May 1967
GOCR	Commodity Imports	1.1	Jan. 1968
?	Agri. Diversification/Industry	5.0	July 3, 1968
Pvt. Sector	COFISA	5.0	1969
GOCR	Highway Maintenance	6.9	1969
	Savings & Loan System	1.0	1969
GOCR	Agricultural Sector	15.9	1970
GOCR	IFAM- Munic. Develop.	3.6	1970
GOCR	Malaria (add-on)	0.6	1971
	Total	70.5	

c. Programs and Sectoral Focus

Most of the types of technical assistance activity under way in the 1950s continued through the 1960s, financed by grants. The major innovation in the grant program was the beginning of support for family planning in 1966. Although the level of funding for family planning (around \$1 million per year) would have justified treating it as a major project and funding it through loans, the political sensitivity of the activity made continued grant funding the preferred mode.

The two major changes in approach were (a) a concern about economic and social policy, upon which the entire aid portfolio was implicitly linked and (b) the inclusion of

financing of large projects through soft loans. The concern about policies and priorities was carried out formally through the CIAP. The CIAP reviewed Costa Rica's performance in relation to Alliance goals. There seem to have been two significant policy issues where external pressure was brought to bear on Costa Rica. The first, as mentioned earlier, was for Costa Rican accession to the CACM. The second was over Costa Rican fiscal management. Throughout the 1960s, the U.S. and the World Bank and IMF pressured the Costa Rican government to raise taxes in order to put public finances on a more stable footing. This led to an informal freeze on new projects by the U.S. and the World Bank in the mid-1960s until the government took some action.

The major projects financed during the 1960s are shown in Table 5. Agriculture was the largest concentration, with 43% of the total major-project resources. Infrastructure followed, with 29% of the total. The remainder of the portfolio was distributed in a variety of social and institution-building projects. With the exception of two loans for re-lending to COFISA, a new private financial intermediary, all of the projects during this period were with the government of Costa Rica or autonomous institutions of the government. In one case -- the Instituto de Fomento y Asesoría Municipal, or IFAM -- the USAID project was developed in conjunction with the creation of the institution. Thus, USAID was closely associated with the creation of both COFISA and IFAM.

Agriculture (\$30.9 million). Agriculture continued to be the largest concentration of USAID programs in the 1960s, with a particular emphasis on small farmers. Three loans were made to the BNCR for the juntas rurales program of small-farmer credit, and the 1969 agricultural sector loan included another credit component for the BNCR. The latter project was an ambitious effort to restructure agricultural policy by establishing an intergovernmental national agricultural council (CAN), along with regional councils (CANcitos), and by strengthening the Ministry of Agriculture's planning and agricultural research and extension capabilities.

Housing (x.x million). USAID was active in the housing sector, but mainly through ROCAP rather than the bilateral mission. The bilateral mission financed a slum replacement project in Hatillo in San Jose with INVU. ROCAP promoted two HIG projects -- in Desamparados in 1969 and in Tibas in 1973. It also worked closely with the Banco de Credito Agricola de Cartago to establish the savings and loan sector.

d. Other Donors

With the creation of the Inter-American Development Bank and the Central American Bank for Economic Integration, external funding for Costa Rican investment activity dramatically increased. The World Bank came to play a much more important role in the 1960s than it had previously. The United Nations, through a variety of specialized agencies, also became a significant source of technical assistance and training. Other bilateral donors seem to have become active, though quantitative data are not available beyond those in Table 3.

3. Basic Human Needs and Poverty Reduction (1972-81)

a. General Approach

For a decade from 1972 on, USAID shifted its focus in Costa Rica away from broad macroeconomic and sectoral concerns and toward the social and economic problems of the poorest sectors of society. Initially, this was a response by the Costa Rican mission to perceptions in Washington about Costa Rica's need for aid. Later, it represented a change in the USAID ideology toward direct poverty reduction and a new development paradigm called "basic human needs."

By about 1970, USAID had begun to view Costa Rica as a development success. The economy had been growing rapidly for some years, fueled by rapid growth of industrial exports to Central America and agricultural exports to the industrial countries. Exports of coffee, bananas, sugar and beef were all growing rapidly. Costa Rica was expecting rapid expansion of banana production and the establishment of a major bauxite operation by ALCOA. At this point, USAID/Costa Rica began planning for gradual phase-out, and started reducing staff.

Because Costa Rica was seen as too developed to qualify for a large allocation of resources, the USAID mission tended to focus on activities that were seen as dealing with the poorest Costa Ricans, or with some unfinished aspects of Costa Rican development. As a result, USAID mission proposals to Washington tended to emphasize the mission's "unfinished agenda" and activities to position for a post-aid relationship with Costa Rica.

By the mid-1970s, Congressional disillusionment with the Vietnam war and with the Nixon Administration's increasing concentration of aid in southeast Asia led the Senate to vote down an appropriation for USAID. Under Congressional leadership, a new approach to foreign aid was designed. Responding to charges that USAID was transferring resources "from poor people in America to rich people in developing countries," programs were to be redesigned to focus directly on poverty reduction and activities that directly benefitted poor people. This "basic human needs" approach submerged concerns for macroeconomic balances, for overall development trends, by focusing on direct actions to reduce poverty.

The USAID Mission in Costa Rica responded to the new mandate. Its 1976 strategy paper describes the program as emphasizing "socio-economic disparities, including increased migration and growing urban poverty; economic dependence, rising unemployment; institutional weaknesses; poor land utilization; and financial constraints." Later, the goal of USAID assistance is described as "to narrow the socio-economic gap by increasing the real incomes of the poor." This represented the opposite end of the spectrum from the high-development days. The development problem was seen as getting resources directly to poor people, and broad theoretical constructs and long chains of deductive reasoning about the impact of overall economic development on poverty were rejected as "trickle-down

dynamic "change agents." Such expectations were usually disappointed.

c. Other Donors

By 1980, probably the nadir of the U.S. aid role, U.S. economic assistance represented only 5% of all ODA, and U.S. official flows were only 3% of all official flows. For all practical purposes, AID had become a marginal actor in the economic-aid game.

4. Macroeconomic Restructuring/Reactivation (1982-92)

a. Historical Setting

Costa Rican economic management during the late 1970s was myopic. Despite usually favorable coffee prices, the country was borrowing heavily abroad, financing its oil-price-induced deficits rather than adjusting to the changed world. The sustainability of this policy was highly questionable. What was questionable in 1978 was unmanageable in 1979, after Paul Volcker, chairman of the U.S. central bank, tightened money so that Eurodollar interest rates (upon which a significant amount of Costa Rican borrowing was based) rose from 6% to 19%. The recession Volcker provoked also sent world prices of Costa Rica's major exports downward after 1980, from which they did not recover for more than a decade. By 1981, severe external payments imbalances were evident, and Costa Rica suspended payments of both principal and interest on its international debts.

There was nothing in the experience of the U.S. aid program by 1981 that would have made the possibility of massive U.S. support to Costa Rica during the next decade conceivable. The U.S. had provided balance-of-payments support during the 1960s to Brazil, Chile and Colombia, but such "program lending" had been seen as only a mixed success, and, in any event, no longer the province of USAID. The IMF and the World Bank were regarded as the proper authorities for such assistance. The United States had been providing Economic Support Funds (ESF) -- economic assistance for political reasons, controlled by the State Department -- since the mid-1970s, but it had been used almost exclusively to support political goals in the Middle East and Asia. During the 1970s, only \$15 million in ESF had gone to Latin America -- to Jamaica to assist the Manley regime, which was playing a lead role in the "North/South dialogue."

b. General Approach

Despite the lack of precedent for massive assistance to Costa Rica, the U.S. Ambassador and USAID officials pressed Washington for substantial assistance, emphasizing particularly the risks to Costa Rican stability of the Sandinista government in Nicaragua. The effort was particularly strong after the election of President Monge in early 1982, whose government was committed to addressing the deep economic problems. Though such funding had not been contemplated in USAID's Congressional budget, the U.S. responded with \$15

million in balance of payments support in July of 1982, and another \$62 million in December (In FY 1980, the total USAID budget for all of Latin America was only \$200 million.)

Several factors were at work to raise the USAID level in Costa Rica. First, the new Republican administration had committed itself to substantially increased aid for Latin America, which they charged the Democrats with ignoring. In this context, there was substantial Congressional interest in Costa Rica as the region's leading democratic experiment. Second, the U.S. opposition to the Sandinista government in Nicaragua led to efforts to support the rest of Central America as a bulwark against Sandinista expansion in Central America. This proved to be the major factor in the longer term. President Reagan and much of his cabinet visited Costa Rica in December 1982 to pledge U.S. support. In 1983, President Reagan established a commission under Henry Kissinger to study Central America's problems in late 1983, which issued a report in 1984 calling for a massive increase in U.S. assistance to the region. A third factor in the high aid level, that resulted in Treasury Department support, was the heavy Costa Rican indebtedness to U.S. commercial banks. Costa Rica's visibility as a debtor made the country important in maintaining the U.S. debt strategy of promoting resumption of debt service wherever possible.

After two years of ad hoc economic stabilization, the U.S. program for Central America in the 1980s was formalized in 1984 as the Kissinger Plan. It contained four strategic elements:

- Economic Stabilization. During the first 2-3 years of the program, USAID would work closely with multilateral agencies to stop the economic declines and to restore fiscal and monetary equilibria with the help of substantial external aid;
- Economic Transformation. This was the conceptual centerpiece of the strategy. It argued that development of new exports was the central task of policy, as prospects for adequate export earning from traditional products were dim. To achieve this, three conditions needed to be met: adequate macroeconomic policies; deregulation of the economy; and reduction in the role of the state.
- Broad-based Sharing of Benefits of Growth. Beyond a resumption of sustainable growth, the program sought to assure wide sharing of the benefits of future growth. This included expansion of education, social and economic infrastructure, and elimination of government or private obstacles to poor people's access to resources.
- Democratization. The final element of the program -- intended to play a key role in the rest of Central America, but not in Costa Rica -- was the establishment of democratic political systems and decentralization of the public sector.

The program was to provide \$6 billion in AID resources to Central America over a five-year period through 1989. Actual funding never reached the requested level but, by stretching out programs to 1992, the \$6 billion in funding for the region was reached.

c. Programs and Sectoral Focus

After 1982, the overwhelming focus of the program in the first instance was on macroeconomic support. Table 7 shows the predominance of the nine Economic Stabilization and Restructuring (ESR) programs in the overall total. Under the ESRs, USAID resources provided dollars to the central bank so that additional imports could be financed. Nevertheless, this "program financing" gave USAID an additional resource -- local currency programming -- that had been used only to a very limited extent prior to 1982. During the 1960s and 1970s, most USAID resources had directly funded the desired activity. USAID funds were used to import equipment for projects or to pay salaries or to cover other direct project costs. The financing of the 1980s was different.

Table 7

Major Programs, 1982-93

Implementing Agency	Purpose	Amount	Date
Pvt. Sector	BANEX Pvt. Sector Productivity	9.9	1981
BCCR	Economic Stab./Recovery I	20.0	1982
Pvt. Sector	COFISA - exports	10.0	1982
BCCR	Economic Stab. Recovery II	153.7	1982, 1983
GOCR	Policy Planning/Admin. Improv.	4.5	1983
GOCR	Northern Zone Infrast.	13.4	1983
GOCR	Health Supplies	9.9	1983, 1984
GOCR	Economic Stab./Recovery III	130.0	1984
Pvt. Sector	PIC-pvt. investemnt.	20.0	1984-1986
GOCR	Economic Stab./Recovery IV	160.0	1985
GOCR	Economic Stab./Recovery V	120.6	1986
GOCR	Economic Stab./Recovery VI	119.8	1987
GOCR	Economic Stab./Recovery VII	85.0	1988
GOCR	Economic Stab./Recovery VIII	75.0	1989
	Forest Conservation/Mgmt	3.8	1990
	Financial Services	15.0	1990
GOCR	Economic Stab./Recovery IX	60.0	1990
	Trade and Investment	10.0	1991, 1992
	Regulation of Forestry Mgmt.	2.0	1993
	Total	1,050.0	

Note: this list may be incomplete

The dollars provided by USAID to the central bank were used mainly for private

sector imports. The importer would pay the BCCR (or the commercial bank operating on its behalf) the equivalent in colones of the dollar requirement for the imports. Those colones could have been ignored by USAID, treating the dollar transfer as the intended purpose of the aid. In that case, the colones acquired by the BCCR would have been just another part of its resource base in setting domestic credit and monetary policy.

Instead, USAID chose to treat the colones as a resource available for allocation for local currency requirements for assistance programs. These colones, it should be emphasized, were a resource for USAID, but not for Costa Rica. The only resource transfer to Costa Rica took place with the importation of the goods and services paid for by the USAID dollars. In practice, the local currency was used for the whole gamut of activities undertaken by the USAID mission. The massive amounts of local currency gave USAID/Costa Rica budgetary resources to support numerous initiatives both in economic and social development. USAID funding became the provider of last resort for initiatives, such as the provision of a new series of textbooks for Costa Rican schools, for which GOCR budget resources were lacking. This large pool of funds was jointly programmed by USAID and the GOCR, but agreements were often reached at high policy levels with little public discussion. This led to charges by some that USAID/Costa Rica constituted a "parallel state."

In terms of the four Kissinger goals -- economic stabilization, economic transformation, broad-based sharing of the benefits of growth, and democratization -- USAID's emphasis in Costa Rica was on the first two elements. Unlike most of the rest of Central America, Costa Rica had a long tradition of democratic institutions and of broad-based development. Some resources were devoted to these areas, but the overwhelming focus was on first stabilizing and then transforming the macroeconomic policy regime and institutions.

The USAID approach to stabilization was orthodox, and involved mainly following the lead of the International Monetary Fund, reinforcing the Fund's efforts to control the public sector deficit, monetary aggregates, and the external balance.

The focus on economic transformation flowed from a diagnosis that the Costa Rican economy suffered from three main problems:

- the government was too large and dominating a force in the economy, with excessive regulation of the private sector;
- the financial sector was inefficient and incapable of delivering the financial services needed for a dynamic economy; and
- economic dynamism required reorientation of Costa Rica's policy regime away from import substitution and toward exports.

The bulk of USAID resources during the 1982-92 period were allocated in response to these three priorities.

Financial Liberalization. Liberalization of the financial market was pursued through

several channels. Local currency was made available for rediscount lines for private sector lending through both private financial intermediaries and public banks. Direct funding for several financial intermediaries was provided, including COFISA, the PIC, and BANEX. USAID also pursued policy changes with the government, notably seeking mechanisms for private financial intermediaries to compete with the national banking system for deposits. Finally, USAID promoted restructuring of the financial system to free interest rates, to eliminate sectoral credit allocation by the central bank, and to strengthen prudential regulation.

Government Downsizing. USAID promoted the privatization of government enterprises, notably those held by CODESA. USAID's policy conditionality in this area went through several phases. The first was to press for an end to CODESA's unlimited line of credit with the BCCR. Subsequently, USAID pressed for sale or closure of the CODESA enterprises. Substantial amounts of local currency counterpart funds were used to cancel debts of these enterprises, in order to clean their balance sheets. Later, USAID promoted the reduction in the size of the central government, providing local currency funding for "labor mobility" programs to reduce government employment.

Export Promotion. The primary USAID effort in this area was the creation of CINDE as an export and investment promotion entity. CINDE was a hybrid organization -- a private sector organization serving a public purpose. CINDE established investment promotion offices abroad to lure foreign investors to Costa Rica, programs to stimulate non-traditional agricultural and industrial exports by Costa Rican firms, and training programs for workers and managers of these new firms. USAID also sought improvements in the policy regime for exports (one-stop approval procedures for exports and foreign investment, an appropriate exchange rate, reductions in import tariffs), often in conjunction with policy changes sought by the World Bank and IMF.

c. Other Donors

USAID again became the primary donor agency during the 1980s. This was particularly true during the 1982-86 period, when the Costa Rican foreign exchange shortage was most acute. Table 8 summarizes all donor assistance during this period. AID provided 57% of all aid to Costa Rica during this period, and far more than the World Bank and International Monetary Fund combined.

Table 8

Net Disbursements, 1982-86 Bilateral and Multilateral Assistance Agencies

Agency	Total Net Disbursements	Percent Share
USAID	760	57
Inter-American Development Bank	233	16
World Bank	129	10
International Monetary Fund	39	3
Other Multilateral	47	4
Other Bilateral	131	10
Total	1,339	100

Source: Sasha Muench, "Aid and Multilateral Assistance to Costa Rica from 1946 to 1993," USAID/CDIE, September 1995, and Table 3.

There was close collaboration, however, between USAID and these other donors during the period. USAID disbursements were sometimes linked to progress toward objectives sought by the World Bank or IMF, and IMF targets at times limited the amount of local currency that could be generated from USAID counterpart funds. Coordination among donors was maintained through a World Bank-led consultative group for Costa Rica.

5. The Conclusion (1995-96)

USAID decided in 1993 to terminate its assistance programs in Costa Rica by September 1996. USAID activity during the last two years mostly involved close-out activities, and no new programs were initiated. This decision to close was part of a broad cutback in USAID overseas activities associated with cutbacks in overall USAID appropriations and in a redirection of USAID resources. Approximately 20 USAID missions were closed as part of the same review. About half, like Costa Rica, were closed because the level of development reached by the country made continued USAID support difficult to justify. The other half were terminated because USAID concluded that, though poverty was still widespread, political conditions did not make development programs likely to succeed.