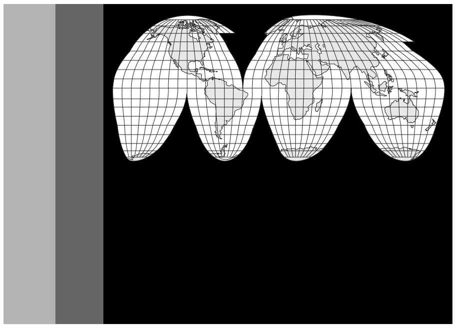

USAID Program and Operations
Assessment Report No. 23

Real Progress: Fifty Years Of USAID in Costa Rica

by

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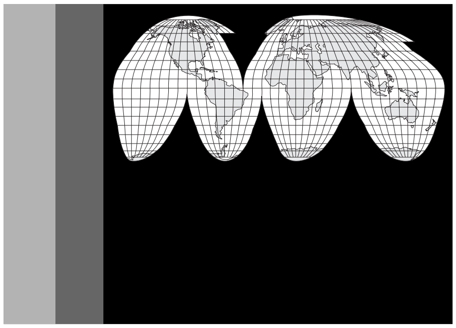

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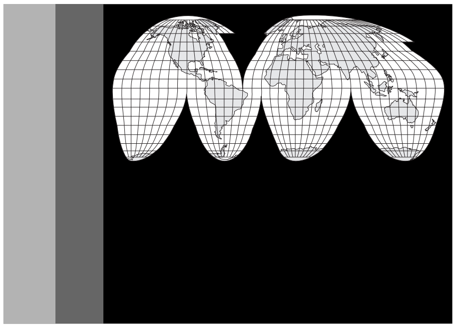


Introduction

Over the past 50 years, the U.S. government provided Costa Rica $2 billion in economic aid. Did it make a difference? Certainly Costa Rican conditions have improved: ordinary citizens live longer, healthier lives; are better educated; have far higher incomes; and live in a vibrantly democratic society. A highway built largely with U.S. government funds now links the formerly isolated central part of Costa Rica to both its coasts and to neighboring countries Nicaragua and Panama. But the changes that took place in Costa Rica were the result of actions by millions of Costa Rican citizens acting in their own interests, by successive Costa Rican governments, by the opportunities provided by the international economy, and by actions of a variety of multilateral and foreign government assistance programs. The U.S. government foreign assistance programs were the largest single outside factor, but this influence cannot be separated from all of the rest.

The volume of programs of the U.S. government—perhaps a thousand separate activities, each carried out by a combination of American and Costa Rican implementers—precludes evaluation of impact by analyzing each one. This study instead attempts to assess impact by looking at the main emphases of U.S. assistance and their relation to Costa Rican development.

The report is organized as follows: Chapter 1 poses a question seldom asked: why the U.S. government would tax its citizens to raise money for such a purpose in the first place. Chapter 2 provides an overview of Costa Rica from 1945 to 1995, both in general terms by examining aggregate data, and in microcosm by examining how life changed in two rural communities between 1950 and 1995. Chapter 3 critically reviews the four broad conceptual approaches the U.S. Agency for International Development used in Costa Rica (and elsewhere) and assesses the success of each. Chapter 4 draws conclusions about the overall effectiveness of USAID assistance, identifies successes and failures in narrower sectors, and discusses unanswered questions. Chapter 5 offers lessons for USAID in its future programs.

This study was managed by the Center for Development Information and Evaluation (CDIE), an arm of USAID, drawing on a series of sector studies carried out by Costa Rican researchers. These Costa Rican sector specialists studied USAID's involvement in each of 10 sectors: agriculture, democracy, education, health, family planning, finance, infrastructure, macroeconomic policy, natural resources, and trade policy.* Three crosscutting studies (a comparison of economic and social conditions in two rural communities in 1950 and 1995, an analysis of USAID's involvement with three private voluntary organizations, and a study of the effects of nontraditional export growth) also were carried out. The researchers used available documentation on USAID programs† and Costa Rican development from 1945 through 1995. The record was incomplete for the early part of the period, however, and evaluations or project completion reports were often unavailable, even for recent periods. The researchers also were provided with summaries of interviews with about 100 Costa Ricans knowledgeable about specific USAID programs and 25 Americans who had worked for the Agency in Costa Rica. The draft sector studies were then reviewed at workshops in Costa Rica and Washington. The sector studies, listed in the appendix, provide the necessary background and analysis for many of the conclusions in this report.

Conclusions

It is impossible to adequately characterize the impact of an enterprise with so many diverse elements. Rather, the result of assistance was more a mosaic that emerged from the independent decisions of large numbers of people spread over decades. Some broad generalizations do emerge from looking at this mosaic:

1. Assistance programs were collaborative and well intentioned, and most achieved their intended purpose. Costa Rican economic and social progress was faster as a result of these efforts.

2. For the most part, USAID pushed in the correct direction. The policies and orientations that were pursued were generally better than those existing at the time.

3. The most evidently successful activities included the Inter-American Highway, which provided the backbone for Costa Rican transportation; collaborative rural health programs, which produced spectacular successes and were adopted elsewhere; and the macroeconomic reform program of the 1980s.

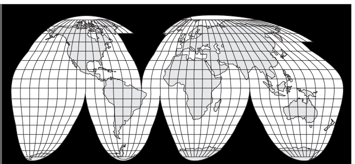
4. In retrospect, two large mistakes are evident: encouraging Costa Rica to participate in the Central American Common Market, with its high barriers to trade with other countries; and trying to enlarge governmental social programs in the late 1970s, when an economic crisis loomed.

5. In these and other cases, USAID approaches did become better over time. Lessons from past failures, in Costa Rica and elsewhere, were gradually incorporated into new projects.

6. All in all, U.S. economic assistance to Costa Rica met both the developmental and the foreign policy goals it was intended to serve.

*Ricardo Monge and Eduardo Lizano of the Academia de Centroamérica coordinated the sector studies and provided many insights, both conceptual and factual, to the study.

†This paper uses "USAID" as shorthand for all U.S. government economic assistance programs to Costa Rica. USAID was established only in 1961, and earlier programs operated under different names. The largest single project, the Inter-American Highway, was administered by a U.S. domestic agency, the Bureau of Public Roads.



1 Why Foreign Aid To Costa Rica?

OFFICIAL FOREIGN AID is a post–World War II phenomenon. Before that, though the U.S. government sometimes provided temporary relief in response to both natural and man-made catastrophes, during most of U.S. history, annual government appropriations for "charity" to foreign countries had been a foreign idea. Yet between 1945 and 1995, the United States provided $2 billion in economic aid to Costa Rica—on average, about $20 per year, or $1,000 in total, for each Costa Rican. The average American citizen paid $40 dollars (80 cents a year) in taxes to provide for Costa Ricans, who were among the most favored recipients of U.S. foreign aid during the period. Only citizens of Israel, Vietnam, Egypt, and Jamaica received more per capita. What was there about the United States, and about Costa Rica, that would persuade 10 successive American presidents to take money from U.S. citizens to give to Costa Ricans?

Two basic arguments have traditionally been used to support U.S. foreign aid: American self-interest and American altruism. So stated, these two lines of argument are mutually exclusive. If a course of action is justified by real benefits to the United States, it is not, by definition, altruistic. An altruistic reason is one from which no benefit can be expected other than the satisfaction of having done "the right thing." Aid proponents in the United States have sought to marry these two purposes, asserting that U.S. national security interests are best served by economic aid programs that benefit poor people in developing countries.[*]

For most of the period since 1945, U.S. foreign policy has been based on the belief that the United States was locked in a global struggle with international communism, a powerful force antithetical to U.S. purposes and interests. Until the collapse of the Soviet Union in the

[*]Despite this national security rationale for USAID's presence in Costa Rica, Costa Ricans interviewed were virtually unanimous in believing that the American USAID employees were there for altruistic reasons.

early 1990s, U.S. foreign policy maintained a consistent world view—one articulated by George Kennan in the famous "X" article in *Foreign Affairs* in 1947. Even though Kennan later repudiated some aspects of the policy, 10 presidents consistently followed it. U.S. foreign policy interests believed national security depended on "winning" this struggle, and foreign aid was seen as one element of the program to ensure that outcome.

An unadorned national security rationale would give no emphasis to the recipient country's use of the foreign aid. U.S. foreign policy, however, saw the struggle with the USSR also in moral terms. Buying the support of corrupt dictators was both suspect and unlikely to be a successful long-term policy. Unless the United States were to use its foreign policy to promote economic development, communism would become more attractive as a force for modernization. Thus, the sophisticated security rationale linked the U.S. goal of national security with economic and social progress in the aid-receiving country. The United States would do well by doing good.

Why Costa Rica?

Costa Rica was a highly favored recipient of U.S. assistance. On a per capita basis, Costa Rica received eight times as much as Latin American countries generally from 1945 to 1993, and far more than Asian or African nations. On a worldwide per capita basis, Costa Rica was fifth among U.S. aid recipients. Why?

Pre-1972: A Developing Country

Prior to 1972, U.S. assistance to Costa Rica was about equal to that of other Central American countries, and moderately higher on a per capita basis than U.S. assistance to the larger Latin American countries. Latin America received more aid than other regions because the United States considered it "America's backyard." On one hand, Costa Rica's longstanding commitment to mass education and democracy, and the relatively high quality of government institutions, favored aid to Costa Rica. On the other hand, its relatively high level of development made it a questionable claimant, and that trait led USAID in 1970 to plan to phase out assistance to Costa Rica.

Basic Needs (1972–80): Costa Rica As Residual Claimant

The proposed phaseout of aid to Costa Rica brought declines in Mission staffing and program levels, but a firm decision to actually terminate the program was continually deferred. A shift in the overall USAID approach to "basic human needs"—emphasizing help to the poorest people in the poorest countries—should especially have accelerated the close of the Mission. Aid levels were reduced, but less so than might have been expected. Programs in Latin America were cut, while those in Asia and Africa were increased. Though planned levels for Costa Rica were low, that country consistently received more than its planning figure. When proposed projects failed to materialize in other countries for technical or for political reasons (such as a coup d'etat), Costa Rica was always considered a safe place to put extra resources at the end of the fiscal year, and thus was a "residual claimant" for available resources in Latin America. Costa Rican institutions could develop and manage projects well and ensure that projects would benefit poor people.

The 1980s: The Sandinista Windfall

Costa Rica's fortunes as a claimant for U.S. economic aid improved dramatically during 1982–92. Measured in 1994 dollars, it received more than $1.4 billion during this decade, compared with $0.8 billion in the previous 35 years. The debt crisis of the early 1980s hit Costa Rica hard, but no harder than it struck the rest of the developing world. The special justification for assistance to Central America was the leftist Sandinista government in Nicaragua. The Reagan administration, which took office in 1981, adopted a foreign policy stance toward Nicaragua of isolation and hostility. The administration feared Sandinista support for guerrilla groups elsewhere in Central America, a view given credence when the outgoing Carter administration cut off U.S. aid to Nicaragua because of mounting evidence of Sandinista support for Salvadoran insurgents. The United States gave great currency to the boast attributed to one of the Nicaraguan *comandantes* that Central American countries would fall like ripened fruit to revolution, with Costa Rica coming last, as dessert.

The Reagan administration sought additional aid for Central America and in 1983 established a bipartisan commission chaired by former Secretary of State Henry Kissinger to recommend a longer term program. The Kissinger Commission proposed a five-year program of $1.2 billion in annual economic aid to the region, along with substantial military aid. Congress appropriated about $1 billion annually for the rest of the decade.

In the early years of the Kissinger program, USAID, the administration, and Congress generally agreed on allocation of aid to the Central American countries. By the late 1980s, however, discrepancies appeared. By 1987, USAID proposed lower funding levels to Costa Rica, for two reasons: the progress being made and the concern that continued high levels would create permanent dependence. Congress feared such cuts would signal dissatisfaction with the Central American peace efforts of then-president Oscar Arias, and it specified continued high levels of funding for Costa Rica. By 1991, however, the Sandinistas had been voted out of power in Nicaragua, economic recovery was well under way in the rest of the region, and U.S. aid to Central America began to decline sharply. In 1994, USAID declared Costa Rica an aid "graduate" and established a timetable for phaseout of programs there by 1996. USAID offices closed in September 1996, though some modest activity has since continued through USAID's Central American regional programs.

How Much Aid Was Provided?

The U.S. government provided slightly more than $1.7 billion in direct bilateral aid to Costa Rica during 1946–95. Measured in constant 1994 dollars, the total amounts to $2.9 billion. Additional U.S. aid flowed to Costa Rica through other channels. Perhaps $150 million came from USAID's Regional Office for Central America and Panama, and another $100 million or so came from activities funded by USAID/Washington. Finally, multilateral organizations carried out programs in Costa Rica, including $903 million in loans from the World Bank, $1.72 billion in loans from the Inter-American Development Bank (IDB), and $27 million in grants from United Nations programs. All these multilateral agencies depend on U.S. government support, ranging from 20–25 percent for World Bank and UN programs to half for IDB loans through its Fund for Special Operations. Nevertheless, most of the funding from the multilateral banks is not foreign aid in the usual sense. The banks obtain most of their resources by using guarantees from member countries to raise funds in capital markets to be re-lent at commercial interest rates to recipient countries.

Altogether, then, bilateral U.S. aid to Costa Rica aggregates to about $2 billion in congressionally appropriated dollars, or about $3 billion in constant 1994 dollars—or nearly $1,000 for each Costa Rican citizen alive in 1994. U.S. economic assistance funded a thousand or so remarkably diverse activities, ranging from small technical assistance projects—that, for example, provided experts on such mundane subjects as sharpening sawmill blades or constructing water systems—to massive macroeconomic policy efforts. Perhaps 300 USAID employees had tours in Costa Rica, and the Agency brought thousands of U.S. consultants for short- and long-term work in the country. More than 5,000 Costa Ricans were sent abroad (usually to the United States) for training, and far larger numbers were trained in Costa Rica in courses financed or designed by USAID.

2 Costa Rican Development, 1945–95

Costa Rica Before 1945

THE GOVERNOR OF COSTA RICA in 1719 wrote the king of Spain:

> This province is the poorest and most miserable in all America. . . . Its inhabitants grow more backward every day. . . . The currency is the cacao bean, and silver coins are unknown. . . . It has been impossible to discover from where derives the name of rich coast [Costa Rica], since it is so enormously poor.

At the time, 180 years after the first Spanish settlement, Costa Rica's central plateau was home to about 3,000 Spanish settlers, for whom land was plentiful. Costa Rican settlers differed from those elsewhere in Central America, in that there was no significant indigenous population that could be subjugated and forced to do the physical labor necessary to support the settlements. The governor's letter continued, "[E]ach inhabitant has to plant and raise that which he spends and consumes in his home every year, and this is also done by the Governor, since otherwise he would perish."

A century later, newly independent Costa Rica was still the poorest and most isolated Central American state. The first coffee exports around 1830 signaled the beginning of a new era. Even with the country's isolation and consequent high transport costs, coffee could be exported profitably. Exports put silver coins in some pockets, introducing greater differences in wealth than in the precoffee days when there was an "equal distribution of poverty" (Rottenberg 1993, 387). Later, building railroads from the central valley to the coasts reduced the country's isolation. The search for products to transport on the railroad led to development of the second major export crop, bananas.

Support for mass education in Costa Rica dates to the latter part of the 19th century. Illiteracy was estimated at 89 percent in 1864 ("Dirección General de Estadística y Censos" 1953, 5). Soon after, the government made education a national priority, making primary education free and compulsory. Illiteracy gradually declined: to 69 percent by 1892, 32 percent by 1927, and 21 percent by 1950.

At the end of World War II, Costa Rica was still a relatively poor agricultural country. Isolation still limited prospects for economic growth. No all-weather roads linked the central valley, where most of the population was concentrated, to either coast or to its neighbors, Panama and Nicaragua. Coffee and bananas continued to account for nearly all export earnings. Economic growth was circumscribed. Available data suggest that per capita incomes stagnated between 1920 and 1945 (Bulmer–Thomas 1987, 312).

By Central American standards, though, Costa Rica was prosperous. Its yeoman farmers had long since surpassed their Central American neighbors in productivity, so its per capita income exceeded the other Central American republics by 15 to 40 percent. Government was small, as it had been throughout the 19th century, but it effectively maintained public order, provided a stable legal system, and financed education. Its emphasis on education also distinguished Costa Rica from its Central American neighbors.

Costa Rica In 1945–50

The government's role began to broaden in the early 1940s with establishment of a social security institute to provide health care and retirement benefits for covered workers. It accelerated in the late 1940s, when a brief civil war was followed by the first Figueres administration. José Figueres Ferrer, the leader of the insurgents during the civil war, has cast his shadow over economic and social policy ever since. Figueres nationalized the banking system, promoted the concept of government-owned enterprises for public services (the first was an electricity company), and abolished the small (and institutionally insignificant) army. From this point, the government assumed a steadily larger place in the society as guardian of the welfare state; its share of total employment rose steadily for three decades.

In 1950, more than half the labor force worked on farms, and 41 percent of total production originated in agriculture. More than half of agricultural production was exported, with coffee and bananas constituting more than 90 percent of exports. Manufacturing existed, but mostly by small firms engaged in food processing and clothing and shoe production.

One third of the population lived in urban areas, while the other two thirds lived in rural areas with varying degrees of remoteness. While virtually all urban dwellers benefited from piped water, nearby schools, health care services, mass transit, and other amenities, rural residents largely did not. The gap in health and educational standards was wide. Rural infant mortality was probably several times the urban rate. More than half of urban 14-year-olds went to school, but only 17 percent of rural children of the same age did so.

On average, Costa Ricans were poor and unhealthy. Life expectancy was 46 years, equal to that in the United States in 1890. Infant mortality had been improving for decades but still was 110 per thousand live births: more than 1 baby in 10 died during the first year after birth. Fertility was high—about seven children per woman.

By Central American standards, Costa Ricans were well educated. The 1950 census puts literacy at 79 percent of the adult population. Primary education, virtually universal in urban areas, had gradually been extended to more remote areas. Of those born during 1940–44, only 9 percent completely missed out on formal schooling.* Some 33 percent had some primary schooling, while 58 percent completed primary school. About 22 percent of this cohort completed secondary education, and 15 percent had some university training. There were only 17 public high schools in the country, all in the main urban centers, so secondary education was much more common for urban children. Higher education was a recent phenomenon in Costa Rica. The University of Costa Rica was established in 1941, though teachers colleges and some schools of the university had existed earlier as independent units.

Besides the broad geographic coverage of Costa Rican education, the other notable feature of the educational system was its equality of access and educational attainment for women. In 1950, attendance rates were slightly higher for females than for males through high school. Women also outnumbered men at the university level (in contrast to the situation at that time in most of Latin America), because of large numbers of women training to be teachers. The high level of women's education probably contributed significantly to the rapid improvement in health conditions once modern approaches were disseminated and to the rapid spread in contraceptive use for family planning in the 1960s.

Development, 1945–95

From 1945 to the present, Costa Rican production has increased steadily. The country suffered a severe recession in 1980–82 but otherwise has had almost uninterrupted growth of gross domestic product (GDP). Total production increased ninefold in 45 years. Some of the growth came from increased employment, but much of it came from better productivity. Output per worker more than doubled. Productivity increased across all sectors of the economy, linked presumably to increased use of scientific knowledge, expansion of infrastructure, and improved organizational techniques—all areas where USAID programs sought to contribute.

Costa Rica followed the usual course of developing countries. (Table 1 summarizes the change in key economic and social indicators during 1950–95 including trends in the structure of employment during this period.) The labor force quadrupled over the period, and its structure changed dramatically. The share of agriculture in total employment declined sharply and continually, falling from 55 percent of the employed labor force in 1950 to 21 percent in 1995. The total agricultural work force continued to grow until the mid-1980s, though at a slower rate than in other sectors. Manufacturing employment grew rapidly, climbing from 11 percent of the labor force to 18 percent. The largest shift was into service employment: from 30 percent of the labor force to 60 percent. Government services in particular flourished, rising from 6 percent to 19 percent of the labor force

*This figure is based on self-reported education levels for the 1984 population census.

Table 1. Economic and Social Indicators, Costa Rica, 1950 and 1995

	1950	1995
Distribution of Labor Force (%)		
Agriculture	54.7	21.4
Manufacturing	11.3	18.1
Services	34.0	60.5
Distribution of Production (%)		
Agriculture	40.9	18.3
Manufacturing	13.4	21.9
Services	45.7	59.8
Social Indicators		
Infant mortality rate (per thousand)	110.0	13.0
Total fertility rate (births/woman)	6.7	3.0
Malaria death rate (per 100,000)	60.0	0.0
2nd and 3rd degree malnutrition (%)	13.7	3.6
Adult illiteracy	27.0	7.0
Life expectancy at birth (years)	51.0	76.0
Primary school enrollment rate (%)	100.0	102.0
Secondary enrollment rate (%)	20.0	42.0

between 1950 and 1984, before receding to 15 percent by 1995.

Infrastructure

Dramatic improvements took place in Costa Rica's internal transportation and communication, as well as in its interaction with the rest of the world. New roads linked previously isolated villages with the rest of the country and favored the wider marketing of agricultural products and manufactures. National electrical and telephone grids were established; they now provide access to virtually all significant population concentrations in the country. Clean water systems and sanitary waste disposal systems were also established nationwide.

The largest and most important infrastructure project was the Inter-American Highway, for which construction began in the 1940s. It not only provided access to Panama and Nicaragua, but also linked the central valley to the rest of Costa Rica.

Social Services

The social infrastructure of the country expanded rapidly though perhaps lagged a decade behind the buildup in physical infrastructure. During the late 1960s and 1970s, health insurance coverage under the social security system expanded rapidly for modern sector workers. Government programs in public health combined water and sewerage infrastructure with dissemination of improved health practices to produce dramatic declines in infant mortality and improvements in other health indices (see table 1).

Education continued to expand. The remaining gaps in access to primary education were filled by building and staffing schools in the most remote areas. Secondary schools steadily expanded, with the total number of high schools rising from 13 in 1950 to 230 in 1995. Nevertheless, secondary education has yet to acquire the universal appeal or access that characterized primary education a generation ago. Only half of Costa Rican youths go on to high school. University education has increased dramatically, though, from the province of a few elites in 1950 to a plausible aspiration of most high school graduates.

As with physical infrastructure, USAID involvement was most significant in the early stages of expansion—through providing training to Costa Ricans, bringing in foreign experts to assist in system design, and financing programs of increased access to social services. Gradually, USAID reduced support as such programs became part of the usual business of government agencies or received financing on a larger scale from one of the multilateral banks.

The Size and Role Of Government

Dramatic changes in physical and social infrastructure were made in substantial part by expanding the size and role of government. The government's share of GDP rose from less than 10 percent in 1950 to around 35 percent by 1980, where it remained through 1995. Two main actions led to the government's increasingly dominant role: provision of what economists call "public goods" (largely infrastructure and social services), and policy actions and regulations that directly affected the private sector. For example, government policy became a force in determining sectoral distribution of credit and in varying the amount of protection from foreign competition faced by individual sectors or enterprises. Government became a direct producer in a number of sectors.

Costa Rica in 1995

Costa Rica in 1995 reflected the dramatic changes that had taken place over the previous half century. Though fertility fell by more than half over the period, population quadrupled, producing rapid urban growth but also spreading agriculture into remote areas previously covered with forests. In terms of purchasing power, Costa Rica's per capita GDP in 1995 was on the order of $5,800, about 70 percent higher than the world average. Its per capita income growth outpaced that of its Central American neighbors, who fared poorly in recent years. Average income was more than double that of Honduras, El Salvador, and Nicaragua, and had overtaken Panama.*

The United Nations Development Program has developed a composite indicator of social development, the Human Development Index. The HDI attempts to capture the social dimension of development in the same way that per capita GDP provides a composite estimate of the economic dimension. By this index, in 1995 Costa Rica was the most advanced country in Latin America.

Poitically, too, Costa Rica topped the list. Its democratic political system weathered economic crises of the 1970s and 1980s with no significant social conflict and no interruption of civil liberties or individual rights. While Costa Ricans, like democratic citizens everywhere, expressed dissatisfaction with various aspects of their political system, its resilience is a confirmation of Winston Churchill's assertion that democracy is the worst form of government—except for all the others.

Costa Rica In Microcosm: Two Rural Villages

To provide a more tangible perspective on change in Costa Rica over the last half century, researchers for this study resurveyed two villages that had been studied extensively in the late 1940s (Loomis 1953). The two villages, San Juan Sur and Aquiares, are located in eastern Costa Rica near Turrialba. Though the two villages are culturally similar, San Juan Sur was originally populated by small farmers, while Aquiares is a hacienda, where families lived until recently in estate-owned housing and worked as employees.

Economic Changes

Both communities prospered between the periods of study. In both places income and population rose. San Juan Sur was the more dynamic, with population rising 167 percent, compared with 34 percent growth in Aquiares. Potential for gainful employment in coffee production probably accounts for most of the difference. Almost the entire area of the Aquiares estate was already largely planted in coffee in 1950, so the area planted increased only slightly over time. In San Juan Sur, coffee acreage increased sixfold, as farmers converted land previously in pasture, forest, or other crops. Part of this change reflects increased specialization in coffee; farmers stopped growing vegetables for their own consumption and purchased them instead. While the increased *area* planted with coffee provided more employment, the determining factor in increased incomes was higher *productivity* in coffee. Yields quadrupled over the period. Coffee prices declined in real terms over the period, offsetting some of the yield gains, but a hectare of coffee produced about 2.5 times more in purchasing power in 1995

*These comparisons are based on estimates of purchasing-power parity, or PPP. Exchange rate–based estimates differ significantly, though the relative standing is not affected. By the more common measure of GDP, using exchange rates, Costa Rica's per capita GDP in 1995 was approximately $2,600.

than it did in 1950. This is about the average increase in real wages and incomes of the people in the two villages.

Thus, Aquiares and San Juan Sur prospered economically because they produced coffee much more efficiently in 1995 than in 1950. They also prospered because of extension of public utilities such as water and electricity to their communities, and from improvements in health and education facilities. While per capita income is often used as the proxy for wellbeing, the link from some of the important welfare-improving developments to incomes is tenuous. Access to water and electricity was more affordable in 1995, but it was also dramatically cheaper in real terms because a public grid was in place. Much of the health improvement came from better treatment of human waste, which eliminated a major source of diarrhea. Although water and sewerage services played an important role in improving health, education was critical. People were healthier in 1995 because they knew more.

Changes in Living Conditions

The 1950 data show relatively primitive living conditions. Most people lived in simple one- or two-room houses of wood or *rancho*[*] construction. In San Juan Sur, 84 percent of the people had no toilet, even outdoors; the same was true of 97 percent of people in Aquiares. One third of the houses in each village had dirt floors; less than one household in 20 had a radio. Running water and electricity were almost totally lacking in the two communities. Fewer than half of the houses contained any books, and wall decorations were few and simple—pictures of saints or interesting scenes, often cut from a newspaper or magazine.

Although the San Juan Sur/Aquiares study did not include health data, a health survey of a broader rural area around Turrialba in 1953 by some of the same researchers indicates that health conditions in the region were abject. This study found infant mortality to be 170 per thousand live births, with miscarriages and stillbirths resulting from another 14 percent of pregnancies. Trichocephalus infections appeared in 96 percent of the researchers' sample and hookworm in 62 percent. Doctors assisted at 2 percent of childbirths, with midwives (66 percent) the most common attendants.

Long before 1995, ranchos had disappeared. Most houses in both communities were now made of concrete, with concrete or tile floors. All had electricity, and nearly all had piped water and indoor plumbing.

Health conditions also had improved dramatically, as both villages were brought into modern medical-care networks. Nearly all births now take place in hospitals, mainly through the social security system, to which more than 70 percent of households are affiliated.

Communication with the outside world has been revolutionized. While less than 5 percent of the households had radios in 1950, more than 80 percent in each village owned color televisions in 1995. Residents of the two villages have

[*]The least expensive form of housing, a rancho was a one-room house with dirt floor and thatched roof.

been integrated into a wider world. They are in touch with events elsewhere in Costa Rica, and aware of events, trends, and cultural norms in the evolving global culture.

Some social values within the communities have been constant—notably, respect for hard work and for collaboration within the community—while others have changed. Most striking is the increased tolerance of people who deviate from community norms. For example, Protestants and unmarried couples living together are stigmatized far less than they were in 1950. The status and freedom of women increased substantially over the period. In 1950, women typically needed permission to leave their houses. By 1995, social rules were far less restrictive. For example, both villages fielded women's soccer teams. Women in 1995 were also more likely to attain leadership positions in the community than in 1950, though they have yet to achieve full social equality with men.

Some customs have changed because of encroaching values from outside the village. Improved conditions have spurred other changes. For example, community rituals, including a procession, associated with the death of an infant were a weekly occurrence in San Juan Sur in 1950. This has disappeared as improved health conditions have transformed this from a normal part of village life to a rare event.

Independent Small Farmers Versus Employees

Though similar in many ways, the two villages provide an interesting contrast that highlights the multidimensional character of development. Contrary to standard assumptions about the exploitative nature of plantation life, the hacienda workers in Aquiares were consistently better off in some respects than small farmers in San Juan Sur. Aquiares children had six years of school when the latter had only three; they had water, electricity, and health care earlier, too. Even today, water availability is better in Aquiares, and all have health care coverage under the social security system, while some in San Juan Sur do not. Contrarily, incomes are higher in San Juan Sur, and long traditions of community self-help and political activism have created a more self-reliant social pattern.

In sum, both communities have provided paths to better economic and social conditions for their residents. But those paths meander over different portions of the steep hillside of development. Even progress in the organization of the household can be attained in substantially different ways. In Aquiares, the woman of the household alone manages family finances in 44 percent of homes, while the man alone does it in only 19 percent. In San Juan Sur, the man alone does so in 48 percent of the households, while the woman does it in 29 percent. This could be related to the fact that household finances are closely tied to farm management and investment decisions in the latter case. Or it may indicate that farm ownership reinforces patriarchal traditions in a way that the wage system of employment at Aquiares does not.

What Progress Has Done, And What It Has Not

While all objective indicators of development are positive, we cannot conclude that development has been an unmixed blessing in San Juan and Aquiares. We cannot say that residents are happier, though we can confidently say that they have more years of life to experience happiness or misery; and any misery they face is at least more comfortable.

Several further observations might be made. First, while the changes in both villages are dramatic, one cannot expect the citizens to be aglow with the progress already made. People have sufficient problems that people everywhere have—love, marriage, money, raising children—to make life challenging and frustrating. Even modern conveniences become a source of frustration. For example, electricity quickly becomes "essential." Once this happens, any power interruption becomes a source of distress, not an occasion for contemplation of how beneficial it is to have electricity most of the time.

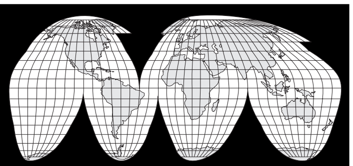
Second, increased access to the outside world almost necessarily weakens the commitment of people to the community as a social network and repository of values. Young people acquire foreign ideas from television and movies that make them less willing to accept the traditional norms and customs of their own community. Schoolteachers are no longer community leaders or progressive elements. Before there was a road, they had no choice but to live in the village; now they live in Turrialba and arrive only for school hours.

Third, people are worried about the future. They worry about politicians in the capital city, about powerful economic interests that might hurt the small producer or the employee, about deterioration in the quality of education for their children. In sum, they worry about the same things most Americans worry about.

Has USAID Made a Difference In Aquiares and San Juan Sur?

When it comes to ultimate beneficiaries of development assistance, such as the residents of Aquiares and San Juan Sur, the causal role of USAID cannot be separated from other factors. Nevertheless, Agency activities left discernible footprints. In coffee, the quadrupling of yields surely owes a significant amount to USAID-promoted initiatives. First, U.S. agronomists introduced scientific approaches to coffee production by identifying nutrients lacking in the soil. This knowledge apparently led to significant and rapid increases in yields. Second, USAID and other U.S. government assistance to coffee research helped develop and disseminate new coffee varieties that produced higher yields and required less care. These improvements were probably introduced into the communities through a variety of channels—extension agents, 4-S clubs (the local equivalent of 4-H clubs), fertilizer salesmen, and word of mouth from farmer to farmer. San Juan Sur has long had a 4-S club, the product of an early organizational effort by U.S. agricultural advisers who organized 158 clubs in the 1950s.

Collaborative efforts by USAID and the Costa Rican government in rural roads, public health, education, and water and sewerage also touched the communities, at least indirectly. In all these areas, important advances occurred in directions that USAID was working collaboratively to promote. In more recent years, the restoration of macroeconomic stability to the country has provided a more favorable environment for people in the villages. A seriously overvalued exchange rate prior to U.S.–assisted stabilization in 1982–84 heavily penalized coffee producers and was probably a factor in the bankruptcy of the Aquiares Hacienda during that period. Coffee producers received substantially less for their product than they would have if the exchange rate had been adjusted for inflation; this probably led to the temporary decline in the number of people living and working on the hacienda. The creation of alternative sources of employment, such as at the factory in Turrialba producing baseballs for export (a dozen women from both villages work there), is a legacy of USAID-assisted export and investment promotion efforts.



3 Validity of the Development Concepts

THE WIDE VARIETY of activities and approaches USAID employed in Costa Rica makes a wide range of evaluation approaches possible. At one extreme, the effect of each of a thousand activities the Agency promoted could be assessed and all the effects combined. At the other extreme, one could treat USAID flows as a financial transfer, and use an econometric model to calculate impact. This study rejects both extremes: limited time makes the first alternative impossible, while the second is too simplistic. Instead, this study adopts two more modest strategies. First, this chapter looks at the basic concepts USAID applied. Were they appropriate to Costa Rican conditions, or were they simply ideological constructs or fads? The next chapter looks at sector and project activities for evidence of success or failure, drawing mainly on sector studies by Costa Rican researchers.

Some claim that USAID country strategies vary widely, depending on the particular orientation of the Mission director in the country or the plans of the government in power. Certainly these factors have some influence. Nevertheless, a review of USAID documentation for Costa Rica makes clear that broad conceptual approaches were stable for relatively long periods of time and that those periods corresponded closely to the current development paradigm. Conceptually, U.S. economic assistance strategy in Costa Rica can be divided into four phases, each answering differently the same question: What is economic development, and how is it achieved?

1. *Technical assistance, 1946–61.* The earliest programs assumed that technical knowledge was the key to development and emphasized training Costa Ricans and transferring knowledge to them through foreign experts.

2. *High development, 1961–72.* By 1961 the answer was broadened to incorporate: a leading role for government investment; attention to the macroeconomic concepts of savings, investment, and internal and external balances; and the sociological concepts of modernization and "takeoff."*

***Takeoff* refers to the stage at which a society has achieved a certain momentum in the pace of change, whereby it can soar like an airplane into sustainable growth.

3. *Basic human needs and poverty reduction, 1972–81.* Disillusion with macroeconomic concepts, and with the apparent failure of macroeconomic growth to "trickle down" to the poor, 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, and avoiding macroeconomic issues.

4. *Stabilization and restructuring, 1982–95.* The tidal wave of macroeconomic imbalances in the early 1980s led to a renewed concentration on macroeconomic balances, together with a concern for microeconomic efficiency that had been lacking earlier. Compared with the 1960s, big government shifted from being seen as the solution to being seen as the problem.

Table 2 shows total USAID bilateral funding to Costa Rica during each of the four periods, by major type of expenditure, using dollars of constant value.

Pre-1961: Technical Assistance

Official U.S. government assistance to Costa Rica began in 1942 under the auspices of the Institute of Inter-American Affairs, an affiliate of the State Department. Initial efforts involved technical assistance to public health and agriculture. Agricultural technical assistance continued on a unilateral basis until 1948, when a bilateral agreement was signed establishing the Servicio Técnico Interamericano de Cooperación Agricola (STICA), to be operated jointly by the two governments. Health assistance was formalized in 1951, when the Servicio Cooperativo Interamericano de Salúd Pública (SCISP) was established.

These two *servicios* operated under the principles of the Point IV legislation passed by the U.S. Congress in 1950. They were staffed by Americans and Costa Ricans and worked closely with, but outside the normal structure of, relevant ministries. Point IV provided technical cooperation based on formal requests from the participating government and required cost-sharing and clearly defined, time-limited objectives. U.S. resources were to be used for salaries and expenses of U.S. technicians, costs of training Costa Rican technicians, and materials used in demonstration projects.

A huge exception to "aid as technical assistance" was funding the Costa Rican portion of the Inter-American Highway. U.S. funding of this infrastructure project was not carried out by any aid agency but by the U.S. Bureau of Public Roads. Altogether, the United States spent $50 million on the Costa Rican portion of the road—more than $36 million of it during the 1950s. Most of the remainder was expended in the late 1960s in rebuilding portions of the road.

STICA originally concentrated on establishing an agricultural extension service and 4-S clubs to transfer technology. By 1955 the extension service had 30 offices around the country, and management was transferred from STICA to the Ministry of Agriculture. STICA also developed irrigation and erosion control projects and later concentrated on agricultural research, both directly and through a contract with the University of Florida for research and the training of Costa Ricans.

Table 2. U.S. Economic Assistance to Costa Rica, 1946–95
(In Millions of Dollars—1994 Equivalent)

Sector	1946–61	1961–72	1973–81	1982–95	Total
Agriculture	20	164	57	57	298
Natural resources	0	0	19	32	51
Education	4	16	13	64	96
Export development	0	6	0	15	51
Finance/industry	5	48	11	71	135
Democracy	5	40	19	20	85
Health	22	76	34	14	145
Infrastructure	195	120	9	27	350
Housing	2	16	12	2	31
Macro stability[a]	0	4	0	1,409	1,413
Population	0	8	8	12	28
Reg. Agri. School	0	0	0	42	42
Totals	**253**	**499**	**181**	**1,764**	**2,697**

Local Currency Programming, 1982–95[b]
(In Millions of Dollars—1994 Equivalent)

Sector	Amount
Health	9
Education	32
Population	0
Environment	23
Food and agriculture	78
Economics/trade[c]	664
Infrastructure/housing	196
Governance	73
Regional agricultural school	122
Other	72
Total	**1,268**

[a]Dollar amounts were used mostly for private sector imports, with local currency proceeds programmed by USAID and the Costa Rican government as shown on the next pages.

[b]Mostly funds generated by sale of dollars provided for balance-of-payments support. These local currency funds were owned mostly by the Costa Rican government, but were jointly programmed.

[c]Includes $337 million that was sterilized and $227 million for credit, much of which would have gone to agriculture.

SCISP worked on water and sewer systems, health centers, and epidemic control. Some assistance was also provided for nursing education and slaughterhouse design. U.S. help supported construction of Costa Rica's first two modern water systems, including fluoridation for San José (the first in Latin America), design of an integrated water system for the central valley, and designs for community water systems (built in 20 communities per year in the late 1950s).

The United States also financed studies, foreign advisers, and training abroad by Costa Ricans in a number of other sectors, including education, transportation, industry, housing, labor, and public administration. U.S. aid financed studies of tax administration and local government, helped create the central statistics office, and gave advice on establishing a formal civil service. In 1959 the first "public safety" programs began. They included police training and internal security training, which were to continue until 1973.

Assessment

Both the technical assistance programs of the 1946–61 period and construction of the Inter-American Highway had a major impact on Costa Rica. Probably the single most critical infrastructure project undertaken during the period, the Inter-American Highway brought substantial benefits to the country. It ended the nation's physical isolation and dramatically increased internal communication. Although the road was conceived as part of a multinational network, its importance as a domestic Main Street actually far outweighed its importance for international traffic through Costa Rica. There is some question whether the part of the highway connecting Costa Rica with Panama was worth the cost to the United States (especially since the vision of connecting Alaska to Tierra del Fuego by road ended in the 1970s with the decision not to traverse the Darién Gap in Panama), but its value to Costa Rica was immediate and large.

Much of the technical assistance provided during this period had large payoffs for Costa Rica, and older Costa Rican officials recall those days as a period of excitement and great achievement. STICA activities were relatively simple, but they introduced a variety of techniques to the region's farmers. Because they were profitable, their use spread rapidly. STICA tended to identify and work with the most progressive farmers under the assumption that their successful innovations would be copied.

In general, technical assistance seems to have succeeded because it represented the first introduction of scientific approaches into a traditional environment. The relative isolation of Costa Rica, its poor communications with the rest of the world, and a lack of alternative means of transmitting information made for big gains in knowledge. Nevertheless, servicios run by Americans outside the formal structure of ministries were not a viable long-term approach, and the transfer of Americans into advisory roles to Costa Rican ministries was inevitable.

High Development: USAID and the Alliance For Progress (1961–72)

By the end of the 1950s, the era of economic development had arrived. The Marshall Plan had revived Western Europe's economy much faster than anyone had expected. Western European economic integration was proceeding, and free trade in the region seemed to be an important factor in its growing prosperity. The post–World War II decolonization effort had evolved into a global war on poverty. The UN labeled the 1960s the Decade of Development.

In the United States, foreign aid became a campaign issue in the 1960 presidential election, when candidate John Kennedy called for expanded aid to fight the communist threat by reducing poverty in developing countries. In March 1961, President Kennedy proposed creating the U.S. Agency for International Development, a considerable expansion from its predecessor, the International Cooperation Administration. U.S. concern for communism and poverty was particularly acute in Latin America, where riots during Vice President Nixon's visit in 1958 and the Cuban revolution of 1959 made vivid impressions on the U.S. public. With its proposal to create USAID, the Kennedy Administration also proposed a multilateral Alliance for Progress in the Western Hemisphere.

One of Kennedy's leading advisers, Walter Rostow, was particularly influential. He believed the administration should eliminate strictures placed on economic growth by traditional attitudes and interest groups. Once these bonds were broken, the economy would "take off" into the blue skies of modernization. The resulting mass education and advance of modern technology would make economic growth almost automatic. The apparent success of the U.S. government's Operation Bootstrap in Puerto Rico in the 1950s buttressed this optimism. Teodoro Moscoso, father of Operation Bootstrap, which achieved rapid growth and industrialization in that self-governing commonwealth, 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 was paired with a perception of government as capable of being a modernizing force, and of the private sector as a reluctant partner in modernization. The Rostow view (shared by many economists, including senior USAID economists Hollis Chenery and Alan Strout) also regarded investment as the key determinant of economic growth. Developing countries were poor because of low investment rates, and economic growth rates could be predicted by consulting the investment rate. The incremental capital–output ratio seemed to mechanistically link investment to growth. In this formulation, government investment in infrastructure would be the leading sector, stimulating private investment in its train. Government economists, writing national development plans that would identify how much investment should be made in each sector, became the high priests of development strategy.

The alliance required participating Latin American governments to undertake several actions, including land reform, increased investment in education and health, and development of a national planning capability. Country performance under the Alliance for Progress was to be monitored by a committee of the Organization of American States: the Comité Interamericano de la Alianza Para el Progreso, or CIAP.

Development thinking at that time, particularly within the alliance, was strongly influenced by the "development planning" concept. The apparent success of economic planning under communism, memories 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 lead, if not to stagnation, at least to cyclical instability and to maintenance of the "old order," where oligarchies controlled most resources.

These grand ideas replaced the hands-on approach of the previous era, and USAID/Costa Rica staffing shifted away from technical experts working directly on activities to program officers and economists who theorized about development and promoted it indirectly through assistance to Costa Rican institutions. In the parlance of the day, the "programmers" replaced the "well drillers."

Costa Rica responded to the new ideas with enthusiasm, quickly establishing a national planning office and a land-reform agency, and rapidly expanding government programs in social and economic infrastructure with financing from the newly created Inter-American Development Bank and Central American Bank for Economic Integration. Costa Rica initially resisted economic integration with the rest of Central America in a Central American Common Market (CACM). But combined pressure from the U.S. government and the *integracionistas*, led by Raul Prebisch at the UN Economic Commission for Latin America, eventually proved irresistible. In 1963, Costa Rica joined the CACM.

Major projects during this period included funding for a new land-reform agency for land titling and colonization; low-income housing through a new government housing agency; credit for agriculture and establishment of a savings and loan system through the state banking system; highway maintenance; and establishment of a private investment bank. With the exception of the investment bank, all the major projects of this period attempted to strengthen existing government institutions or to create new ones. USAID also began grant assistance for family planning in 1967 through ties to the Costa Rican Demographic Association, a private group fearful of adverse effects of rapid population growth. The most complex project was the $20 million agricultural sector loan, which provided funding for a dozen government entities involved in agriculture to expand programs and to improve coordination among government agencies.

USAID also strongly supported Costa Rica through its large Central American regional program. Funding was provided for highways, industrial credit, electrical and telephone interconnection with neighboring nations, expanded regional institutions for public administration, nutrition, and business administration, and a regional bureaucracy to promote economic integration.

Assessment

Costa Rica met most of the goals set by the Alliance for Progress. In most dimensions, including social indicators and growth of GDP, the country exceeded targets set by the Alliance for Progress during the 1960s. New institutions were created, taxation was increased to finance higher levels of public investment, and Costa Rica rapidly increased its trade with the rest of Central America. By the late 1960s, USAID began debating when to close the Costa Rica Mission.

Two internal problems and one outside event later emerged to cast a shadow on the Costa Rican success story. First, expansion of the public sector was not the unmixed blessing expected by architects of the Alliance. Government organizations are easier to create and expand than to eliminate or adapt to changing circumstances. USAID and the Costa Rican government made too strong an assumption that "public sector" was synonymous with "public good." Construction of new roads was favored over the workaday task of road maintenance. Agricultural credit and extension became bureaucratic—more involved in internal government politics and less connected to the needs of farmers.

National planning as a key technocratic tool to long-term development also proved a mistake. In Costa Rica, the National Planning Office (now a ministry) emerged as a political entity committed to implement the specific program of the administration in power.

Second, Costa Rican entry into the Central American Common Market probably enhanced efficiency of industrial companies initially, because it introduced Costa Rican firms to greater regional competition. But as time passed, new investments were made in high-cost production aimed at the regional market. A high external tariff created high rates of effective protection from import competition and made adaptation to newer and higher quality products produced abroad unnecessary. This protection stagnated product designs and quality, making eventual export of manufactured goods outside the region unlikely. Industrialists resisted lowering import tariffs, which would have spurred competition, led to greater specialization, and made the region better able to export manufactures to the rest of the world. Costa Rican participation in the common market was initially judged by economists to have been favorable for economic growth.[*] More recent work suggests that the beneficial effects on investment and employment were only temporary and led to a dead end. In the longer run, the CACM probably slowed economic growth by reducing the region's links to international competition and technological evolution (Sachs and Warner 1995).

[*]Nugent (1974) estimates that the CACM added about 0.6 percent each year to Central American GDP (or more than 7 percent over the period 1960–72), while Cline and Delgado (1978) offer the somewhat lower estimate of an addition of 3–4 percent to regional GDP during 1960–72.

The outside event that colored perceptions of Costa Rican development happened in East Asia. To some extent success is necessarily relative, linked to expectations of what is possible. In the 1960s, Costa Rican GDP annual growth rates of around 6 percent were viewed as highly satisfactory, for there was little evidence that countries could grow any faster on a sustained basis. (In the United States, clearly a development success, per capita GDP has grown relatively consistently at an annual rate of 1.7 percent for two centuries.) Costa Rica consistently exceeded this rate in the 1950s and 1960s. But the goalposts shifted in Asia after World War II. The postwar experience of Japan and rapid growth in the 1960s in other Asian countries—notably Korea, Taiwan, and the city–states of Hong Kong and Singapore—have set a new standard. Six percent is no longer rapid growth if 8 percent or 10 percent is consistently possible.

Basic Human Needs And Poverty Reduction (1972–81)

By 1970, the Agency had begun to view Costa Rica as a development success. Its economy had grown rapidly for some years, fueled by rapid growth of industrial exports to Central America and agricultural exports to the United States and Europe. Exports of coffee, bananas, sugar, and beef were growing rapidly. A large alumina deposit was expected to become a new major export. USAID/Costa Rica began planning for gradual phaseout and started reducing staff. USAID Mission submissions to Washington began to emphasize the Mission's "unfinished agenda" and activities looking toward a post-aid relationship with Costa Rica.

For a decade after 1972, the Agency shifted its primary work in Costa Rica away from broad macroeconomic and sectoral concerns 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 that Costa Rica was on a very satisfactory growth path and that its relatively high income and favorable social indicators made aid unnecessary. Later, it represented a change in the USAID ideology, toward direct poverty reduction—an emphasis of a new development paradigm called "basic human needs." Some development experts were skeptical of the basic-needs approach, but the prevailing view was that no major shifts in macroeconomic policy were required. The two problems mentioned earlier—stagnation of the import-substitution approach, and the end of the developmentalist idea of government—had not yet been generally recognized as major obstacles to continued growth. Consequently, the lack of attention to economic policy issues during this period reflected more ignorance in the prevailing wisdom than a turning away by USAID from it.

The new development paradigm came about in the mid-1970s, when congressional disillusion with the Vietnam War and with the Nixon administration's increasing concentration of aid in Southeast Asia led the House of Representatives to vote down an appropriation for USAID. Critics charged the Agency with transferring resources "from poor people in America to rich people in developing countries" and called on USAID to redesign its programs to underscore activities directly benefiting poor people. A House–Senate compromise that permitted renewed funding for USAID included redirecting U.S. development aid on "basic human needs," limiting USAID's ability to carry out programs that had no direct link to the poor majority in developing countries.

The USAID program in Costa Rica fit well with the new mandate. Its 1976 strategy paper describes the development challenge as "socioeconomic disparities, including increased migration and growing urban poverty; economic dependence; rising unemployment; institutional weaknesses; poor land use; and financial constraints." Later, the goal of USAID assistance was described as "to narrow the socioeconomic gap by increasing the real incomes of the poor." The perceived development challenge was to get resources directly to poor people. Broad theoretical constructs and long chains of deductive reasoning about the impact of overall economic development on poverty were rejected as "trickle-down economics."

The major projects from this period included a follow-on to the 1970 agricultural sector loan, a science and technology development project, a nutrition loan, establishment of a national poverty information system, a low-cost housing and urban improvement project, and a reforestation and natural resource conservation project. As earlier, the public sector was the main target of assistance.

The quality of Costa Rican economic policy also deteriorated during this period, particularly after the 1973 oil shock. Costa Rica chose to finance the higher costs of oil rather than adjust its economy to this new reality. Foreign debt climbed rapidly, as the end of the CACM investment boom was replaced by increased government spending. While lip service was paid to exports, an overvalued exchange rate, a variety of institutional obstacles, and the disincentives to export from participation in the CACM all meant that rapid export growth was unlikely.

Assessment

Just as in the other periods, USAID programs paid for study abroad by Costa Ricans, provided advisers in a variety of technical specialties, and financially supported numerous beneficial activities, such as family planning and agricultural research. These programs yielded benefits to Costa Rica as in other periods. Nevertheless, this period, 1972–81, was USAID's least successful in Costa Rica. Most major projects failed to achieve their objectives. Most involved expanding some government agency and required significant amounts of counterpart funding from the Costa Rican government. With severe budgetary constraints during 1980–82, counterpart funding was often not forthcoming, and the programs were implemented with substantial delays. In addition, projects were usually built with the expectation that government agencies carrying out activities would be restructured into more dynamic "change agents." Such optimism usually led to disappointment, as projects added responsibilities to government agencies already unable to carry out their mandates.

Although the USAID activities during this period were harmonious with Costa Rican government priorities, they suffered from two strategic shortcomings. First, the diagnosis of which activities deserved support was ill suited to Costa Rican realities. The Costa Rican development path had been inclusive and broad based, and already a plethora of government institutions aimed to reduce poverty. The country's principal development challenge was to ensure rapid and sustained economic growth.[*] Second, by the end of the decade, USAID failed to understand the implications of the country's rapidly deteriorating finances. Emerging fiscal shortfalls were sure to compromise new social investments.

USAID and U.S. Embassy officials who worked in Costa Rica during this period have argued that USAID resource levels were too low to make the Agency a player in economic policy, and the Mission accordingly took little interest in such matters.[†] Moreover, the conventional view of development experts was that major changes in economic policy were not essential. Nevertheless, the USAID Mission could have undertaken steps to protect USAID programs from the impending financial collapse. More ambitiously, the Mission might have either actively promoted changes in government policy or stopped providing financial support to Costa Rica.

Macroeconomic Restructuring/ Reactivation (1982–92)

Despite usually favorable coffee prices in the late 1970s, the country was borrowing heavily from abroad to finance its deficits, induced by oil prices. This unsustainable policy became unmanageable in 1979, when Eurodollar interest rates (on which a significant amount of Costa Rican borrowing was based) rose rapidly from 6 percent to 19 percent. World prices of Costa Rica's major exports also fell sharply after 1980 and did not recover for more than a decade. By 1981, severe external payment imbalances were evident, and Costa Rica suspended payments of both principal and interest on its international debts.

Several factors induced USAID to raise funding levels in Costa Rica. First, the new Reagan administration was committed to substantially increased aid for Latin America, which it charged Democrats with ignoring. In this context, Congress regarded Costa Rica with substantial interest as the region's leading demo-

[*] As noted earlier, many development economists were not convinced that there were any serious problems with the development strategy being pursued during this period. Developing-country economic growth has been rapid and sustained for nearly two decades, and the emerging calamity was seen with much greater clarity in hindsight than it was at the time.

[†] USAID/Costa Rica did not completely ignore such issues. The strategy paper it submitted to Washington in January 1981 recognized that the Costa Rican government was making unreasonable forecasts of macroeconomic trends, but it did not recommend any action to address the unreality.

cratic experiment. Second, and even more important, U.S. opposition to the Sandinista government in Nicaragua led to efforts to support the rest of Central America against Sandinista expansion in the region. President Reagan and much of his Cabinet visited Costa Rica in December 1982 to pledge U.S. support. In 1983, the president established a commission under Henry Kissinger to study Central America's problems, which resulted in a 1984 report calling for a massive increase in U.S. assistance to the region. A third factor in the high level of aid, which brought Treasury Department support, was heavy Costa Rican debt to U.S. commercial banks. Costa Rica's visibility as a debtor made the country important in maintaining the U.S. strategy of promoting resumption of debt service wherever possible.

After 1982 the program's purpose became macroeconomic support. Nine annual Economic Stabilization and Restructuring programs provided U.S. dollars to the central bank so that additional imports could be financed. This "program financing" gave USAID and the government of Costa Rica an additional resource, local currency programming, which had been available only to a very limited extent before 1982. During the 1960s and 1970s, most USAID resources had directly funded the planned activities: importing equipment, paying salaries, and covering other direct project costs. Financing in the 1980s was different.

Dollars USAID provided the central bank were used mainly for private sector imports. The importer paid the central bank (or a commercial bank operating on its behalf) the equivalent in colones of the dollars required for imports. USAID could have ignored those colones, treating the dollar transfer as the intended purpose of the aid. In that case, colones acquired by the central bank would have been just another part of its resource base for setting domestic credit and monetary policy.

Instead, USAID and the government chose to treat the colones as a resource available to allocate for development purposes. These colones, it should be emphasized, were not an additional resource for Costa Rica. The only resource transfer to Costa Rica took place with importation of the goods and services paid for by the USAID dollars. Local currency was used for the whole gamut of activities undertaken by USAID. Massive amounts of colones gave USAID and the government sufficient resources to support numerous initiatives in economic and social development. Local currency funding became the provider of last resort for initiatives, such as a new series of textbooks for Costa Rican schools, for which the Costa Rican government lacked funds. This large pool of funds was jointly programmed by USAID and the Costa Rican government, but agreements were often reached at high policy levels with little public discussion. This led some to charge that USAID/Costa Rica constituted a "parallel state."

The primary goal of the USAID program was first to stabilize and then to transform the macroeconomic policy regime and institutions. USAID's approach to stabilization was orthodox and mainly involved following the lead of the International Monetary Fund, reinforcing the IMF's efforts to control the public sector deficit, monetary aggregates, and the external balance.

USAID's concentration on economic transformation flowed from a diagnosis that the Costa Rican economy suffered from three main problems: the government was too large; the financial sector was incapable of delivering financial services needed for a dynamic economy; and the country needed to shift from import substitution toward exports. The bulk of USAID resource transfer during the 1982–92 period was allocated to support broad economic policy changes in response to these three priorities.

Assessment

As in previous periods, a shift in the USAID approach was matched by a similar shift by the Costa Rican government. The severity of the 1980–82 crisis made popular a major policy shift, and sharp cuts in government spending, the dismantling of the government holding company known as CODESA, and devaluation of the currency were all widely seen as necessary.

At the macroeconomic level, USAID assistance during the 1980s was an unqualified success. This conclusion is based on three features of Costa Rican structural adjustment:

1. *The adjustment was quick and (relatively) painless.* No other Latin American country undertook a major adjustment program where the recovery of employment levels and real wages for unskilled workers was faster. Except for Chile, which went through a far more severe recession in the early 1980s, Costa Rica has had the fastest economic growth in Latin America since 1982. The government of President Luís Alberto Monge Álvarez moved resolutely in 1982 to reduce the fiscal deficit and devalue the currency. Inflation was quickly controlled, and the recovery of production was under way by 1983. By 1986, real wages for unskilled workers had recovered to their precrisis level. The key to this success was the relatively large amount of resources provided by USAID to cushion the shock—about $200 million per year, or 18 percent of commodity export earnings.

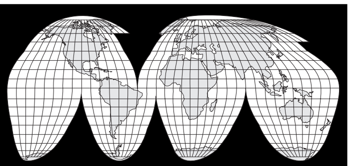
2. *The adjustment favored low-income workers.* The change in the structure of production resulting from the shift away from import substitution to export-led growth created large numbers of jobs for unskilled workers. This was particularly true in rural areas, where nontraditional exports were much more labor-intensive than the crops they replaced (Céspedes and Jiménez 1995; Morley 1995).

3. *The adjustment was sustainable, both economically and politically.* Economically, declining USAID assistance occurred without a decline in economic growth because earnings from new exports could replace lost foreign exchange earnings. Politically, the reforms continued to have broad support, and subsequent governments have continued to implement and broaden them. In 1996, the Costa Rican government finally permitted private banks to accept demand deposits, thus completing a process initiated by USAID in the early 1980s and ending a half-century of government monopoly over basic banking functions.

USAID played the leading role in the macroeconomic restructuring in two key respects. It made common cause with a group of Costa

Rican economists to convince political leaders of particular policy changes needed. Second, the resources USAID provided during 1982–85 were critical to minimizing the severity of the adjustment; the multilateral agencies provided much smaller net flows of resources during this period.

Although the program succeeded at the strategic level, the presence of massive amounts of local currency created problems. While officially this resource was jointly programmed, in practice USAID took the lead. During the early years, the funds supported the macroeconomic reform program, providing funds for private sector development, particularly for nontraditional exports. As time passed, the accumulation of local currency funds led to reduced discipline in the use of such resources and a large USAID presence in monetary policy. Ultimately, the use of local currency reduced the effectiveness of the Costa Rican central bank's monetary policy and led to higher inflation. Left on its own, the central bank would have slowed the rate of growth of the monetary base, thus reducing inflation. It also allowed local currency to be used for activities that might not meet careful scrutiny. A spacious new USAID office building was constructed largely with local currency funding. An agricultural college received nearly $60 million in local currency funding, though its regional mandate caused some to question the reliance on this funding source.



4 Which Activities Produced Results?

THE RELATIONSHIP between USAID strategies and Costa Rican priorities was relatively harmonious, as chapter 3 shows. There were no major strategic conflicts between USAID and the Costa Rican government, aside from the local-currency use issue discussed earlier. This chapter draws conclusions about which programs were most effective. Except for the 1980s, USAID assistance between 1945 and 1995 was subsidiary, providing a modest increment to Costa Rican efforts. The first part of the chapter discusses the USAID contribution in specific sectors, where it played an incremental role. The massive scale of the assistance during the 1980s, however, requires that it be examined in terms of overall results, and the second part of this chapter deals with that period.

Most foreign assistance activities make only incremental contributions to activities under way in the recipient country. The bulk of the resources for most activities comes from the recipient country, and other donors may also contribute. This makes the specific contribution of almost any U.S. assistance activity hard to isolate. Nevertheless, the review of U.S. assistance programs in each major sector shows USAID working with Costa Ricans to pioneer activities. In general, USAID programs provided early support for new directions in Costa Rican growth, and they appear generally to have played a catalytic role. This can be illustrated by looking at the evolution of USAID assistance in two specific sectors: agriculture and natural resources, and population and family planning.

Agriculture and natural resources. From the beginning in 1942, U.S. assistance gave high priority to agriculture. Until the 1960s, USAID sought mainly to transfer modern agricultural practices through hands-on demonstrations and advice by American experts, who also trained numerous Costa Rican agronomists. The emphasis was on finding farmers who were willing to experiment and encouraging better practices and on encouraging a wide range of institutional changes. Through 35 agricultural extension offices, education activities such as the 158 4-S clubs established around the country, and collaboration with providers of agricultural inputs, USAID was able to promote a more scientific approach to agriculture.

By 1963, when the agricultural servicio was folded into the Ministry of Agriculture, many of the practices encouraged by USAID—experimentation, standardization of seed, use of fertilizers, contour farming—had become part of the normal features of Costa Rican agriculture. Middle-class farmers prospered, and USAID subsequently narrowed its attention to small farmers and targeted its assistance on raising their productivity. From the late 1970s, when low prices for traditional exports were limiting prospects for existing crops, USAID encouraged experimentation with nontraditional agricultural export products. These were initially unsuccessful, but improvements in Costa Rican policies, better understanding of technical requirements, and support for export associations gradually produced results. During the 1980s, USAID also gave attention to environmental issues, financing much of the early studies of the environmental problems facing Costa Rica, and encouraging attention to the dangers posed by soil erosion and deforestation.

Population and family planning. Costa Rica had a long history of very high fertility, averaging, in 1950, seven children per woman. Alarm about the potential consequences of continued rapid population growth led to the creation of private organizations promoting family planning in Turrialba, San José, and in a few rural areas. A national association, established in 1966, provided information and eventually service and contraceptive delivery. In 1967, USAID began supporting this effort, both directly and through the International Planned Parenthood Federation.

Over the next two decades, USAID undertook five bilateral projects, each supporting some aspect of institutionalizing family planning. The first project helped establish an office of population in the Ministry of Health. A second project in 1970 pushed for universal coverage by including funding for the social security institute and a program of research at the University of Costa Rica. Subsequent projects centered on disadvantaged rural women and on addressing weaknesses in availability of services, counseling, and commodities. By the time USAID departed, there was broad knowledge in the country of alternative fertility control technologies. Means of fertility control were available within the public and private sector.

It is not possible to draw firm conclusions about the contribution of USAID to Costa Rican development from the sector analyses. What would have happened without USAID? What one can say, however, is that USAID concentrated on pushing the envelope of progress in each sector. USAID helped address problems for which no institutional mechanism was in place. As an institutional framework grew up, USAID projects pushed into new areas. Costa Rica is a different place as a result. How different, it is not possible to say. Modernization would have come to Costa Rica without USAID. What can be said, however, is that USAID programs for the most part were pushing in the proper direction; promoting institutions that eventually became well established; and were identified by knowledgeable Costa Ricans as contributing to the country's development.

Sectoral Successes: Activities With Big Payoffs or Problems

Looking over all of the sector studies, the story is usually similar to the two cases above. USAID provided resources that helped incrementally push in a positive direction. In some cases, however, the USAID contribution seems sufficiently large that its role was more than incremental. It was associated with changes so large or dramatic that it made an unmistakable contribution to a changed reality in the country. Specific cases where this occurred include

1. *The Inter-American Highway.* Major infrastructure projects can play a key role in national development. Although not funded by USAID, this may be the single most important U.S. government–financed investment in Costa Rica. The Bureau of Public Roads spent $60 million on the road between 1942 and 1972, with Costa Rica contributing about $20 million. Before the road was built, motor vehicle traffic was feasible only in the central valley. Communication with the ports of Limón (on the Caribbean coast) and Puntarenas (on the Pacific) was only by railroad, and transport to Nicaragua or Panama was by boat or airplane. The Inter-American Highway provided the backbone of the Costa Rican transport system and ended the isolation of much of the country. It created a national market for agricultural products, broadening the diet of Costa Ricans considerably. It made possible real Costa Rican participation in the Central American Common Market. U.S. training of Costa Rican engineers established procedures still in use for contracting public works projects.

2. *The agricultural servicio.* The impact of U.S.–financed technical assistance during the 1940s and 1950s was very high. The people provided were hands-on agronomists, and they worked in an environment where little effort had been made to use scientific approaches to agriculture. The changes they introduced were generally simple, but they proved highly profitable to farmers, who rapidly disseminated them to one another. The cost of the program was modest, as U.S. agronomists earned $5,000–$10,000 a year, and overhead support costs were probably far lower than they came to be when USAID became bureaucratized.

3. *Health projects*. Between 1945 and 1980, life expectancy and other health indices improved dramatically. As Mata (1996) has shown, the Costa Rican achievements were due to the sustained efforts of a group of socially conscious Costa Rican medical professionals, who were able to count on substantial resources and similarly dedicated professionals in USAID and other organizations such as the World Health Organization. The success of the effort, however, goes back decades earlier, when a sense of purpose and esprit de corps in the Ministry of Health gradually became institutionalized.

4. *Export promotion.* Economists are divided about whether policy alone can produce desired results, or whether promotion activities are also helpful. In Costa Rica, promotion clearly reinforced and sped up the growth and diversification of export production. The evidence is overwhelming that USAID played a

key role in ending Costa Rica's dependence on coffee, bananas, sugar, and beef exports. The major share of Costa Rican exports—as well as the most dynamic part—are now exports of manufactured products to the industrial countries, nontraditional agricultural exports, and tourism. In all three areas, Costa Rica's exports in 1982 were modest, and no institutional base for developing exports was in place. USAID worked collaboratively to create the institutional base, and the export results were spectacular (see box).

5. *Scholarships*. USAID sent more than 5,000 Costa Ricans abroad, mostly to the United States, for study. Unquestionably this substantially increased the number of highly trained people in the society. The upper levels of gov-

Nontraditional Exports

Costa Rican exports have boomed since 1982, rising from $870 million in that year to $2.5 *billion* in 1995. Though higher volumes of the traditional products of coffee and bananas contributed to this result, the real dynamism came from production for export of a wide range of new products.

The primary vehicle for developing these new exports was the National Coalition for Economic Development (CINDE), a private nonprofit organization established in 1984 to promote exports and foreign investment. Its foreign investment program was the more unqualified success, attracting hundreds of foreign firms to Costa Rica into export processing zones, where they used local labor to assemble products for export, usually from imported components. These assembly firms initially were largely in the apparel industry but gradually expanded into a broad range of sectors, including electronics, home appliances, sporting goods, and computer chips. CINDE also helped promote a number of high-value agricultural exports, including melons, pineapples, cut flowers, and ornamental plants.

At first, USAID's emphasis on assembly firms and nontraditional agriculture was controversial. A 1987 Government Accounting Office report criticized USAID for excessive optimism in projecting that nontraditional exports to the United States would grow at an average rate of 18 percent a year. Actual growth turned out to be considerably faster, averaging 25 percent a year through 1995. A 1987 World Bank study was also pessimistic, conceding only that contingent on adoption of a long list of policy changes, it was "not inconceivable" that Costa Rican nontraditional exports to all non-CACM markets might grow by as much as 10 percent a year in real terms. This also proved off the mark. Even excluding exports from assembly operations, the actual growth rate through 1995 was more than 12 percent a year.

CINDE's investment and export promotion operations succeeded because of close hands-on collaboration between USAID staff and Costa Rican leaders. Ambitious but verifiable goals were set, and flexible and creative management by CINDE was encouraged. Similar organizations elsewhere in the Isthmus copied CINDE's approach to investment promotion for assembly operations, producing similar results. Altogether, Central American exports of "assembly type" exports rose from less than $100 million in 1982 to more than $3 billion by 1995.

ernment, academia, and other institutions are filled with ex-USAID scholars. In some years, 40 percent or more of all Costa Ricans studying in the United States (or more than one third of all those studying abroad) were financed by USAID. Agency approaches appear to have been sound—selecting both strong candidates and people who would return to Costa Rica after completing their studies.

6. *Structural adjustment.* Costa Rica followed terrible economic policies during 1978–81. The economic situation in 1982 was catastrophic, and without large-scale U.S. support the country would have had a prolonged depression, from which it still might not have emerged by 1995. Close personal and professional relationships between USAID personnel and Costa Rican government officials appear to have been a major factor in achieving success. This suggests a comparative advantage for USAID in such programs, in contrast to the relatively arm's-length approach of the multilateral agencies, which frequently leads to open conflict and slow reform.

Evaluation in Foreign Policy Terms

To what extent did the aid in the 1980s achieve broad U.S. foreign policy goals? The answer appears to be: completely. Central America today has democratically elected governments in every country; economic policies are generally satisfactory; social tensions have eased; and armed conflict has disappeared from the region except in Guatemala, where low-level guerrilla activity has been going on for more than three decades. In sum, Central America is no longer a policy headache for the U.S. government—the outcome sought by most members of Congress who voted for aid to the region.[*]

Evaluation Of Macrolevel Performance

Aid to Costa Rica during the 1980s may have satisfied U.S. foreign policy concerns, but the aid sought an additional goal: promoting development. The best test of development impact is to compare *what happened* with *what would have happened* without USAID assistance. Though this is impossible to know with certainty, the two most useful approaches for this comparison are economic modeling and comparison with similar countries that did not receive USAID assistance. The first approach is not feasible with the current state of economic knowledge and sophistication of economic models. Alternative models come to wildly varied, but equally defensible, conclusions about the effects of foreign aid. Thus, this study avoided this approach.

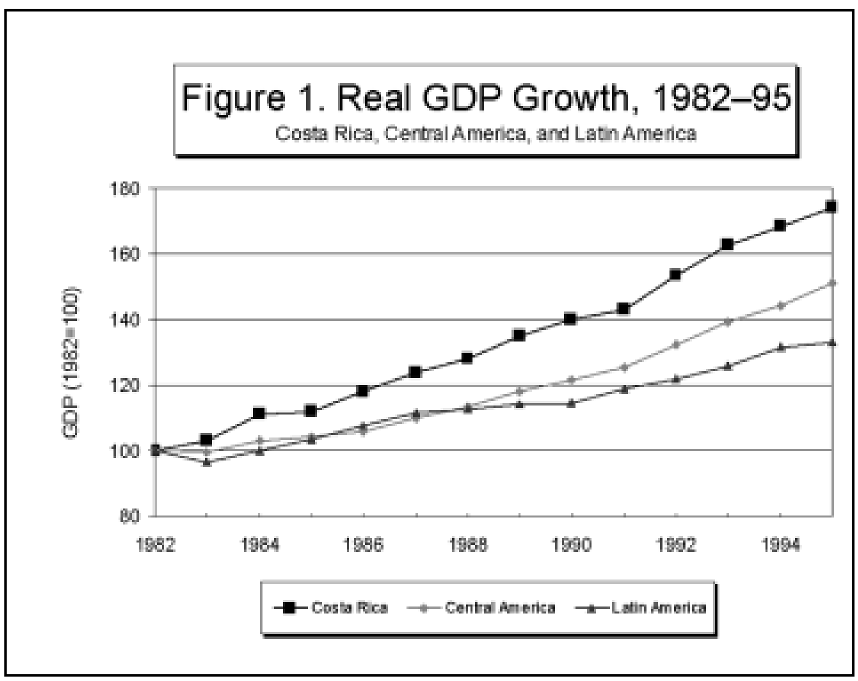
[*]While there may be general agreement that the outcome was satisfactory, there would likely be sharp division on the reasons for this. Some would argue that military aid to the Contras in Nicaragua was an important part of the solution, whereas others would argue that the right outcome was achieved by congressional action to limit the role of the Contras and to emphasize peaceful approaches.

The second approach is also flawed, since all countries differ each other in myriad ways, any one of which might be responsible for performance differences. Nevertheless, this approach provides at least an approximation of performance. For example, all Central American countries share important similarities in economic structure, location, history, and culture. Each country could reasonably be expected to have similar economic performance. Any country deviating significantly from the regional average in economic performance can be assumed to follow significantly better or worse policies.

But use of Central American averages as a basis for judging the impact of USAID on Costa Rica suffers from the problem that USAID also gave substantial aid to all countries in the region during the 1980s except Nicaragua. Each USAID-supported country in Central America outperformed Nicaragua by a wide margin on virtually all indicators of sustainable development. Nevertheless, this test is too easy. Most economists, including many sympathetic to socialism, consider Nicaragua's policy set during the 1980s to have been quite poor. Moreover, Nicaragua suffered from the active hostility of the United States.

Because comparison with Central American neighbors is not feasible, the next closest approximation is with Latin America as a whole, despite the greater diversity of country conditions there, including size. Most of Latin America followed relatively similar policies during the 1960s and 1970s, emphasizing import substitution and building large public sectors. All suffered severely from the debt crisis and collapse of commodity prices in the early 1980s, and nearly all eventually moved to the kinds of policy regimes espoused by USAID in Central America—greater openness to international trade, financial liberalization, an appropriate exchange rate for the currency, and cutbacks in the public sector, including privatization of government enterprises.

Accepting that it may be useful to compare Costa Rican performance with the rest of Latin America, the next question is how to do so. The most widely accepted measure of over-



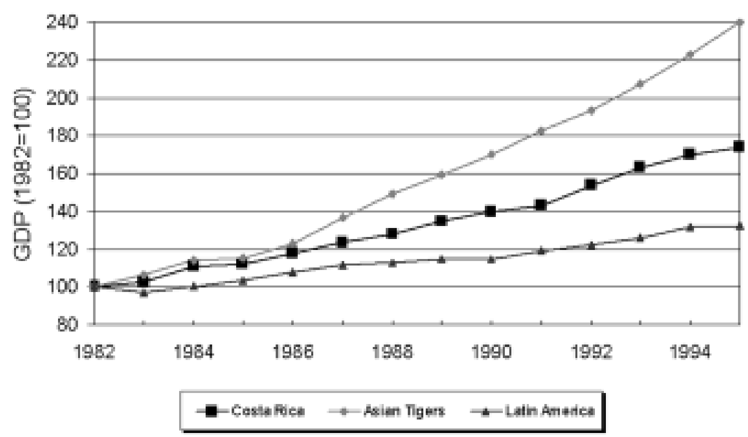
all performance is growth of GDP. This is an attempt to measure all economic activity—activity undertaken for market purposes—in a given year. GDP growth is difficult to measure under the best of circumstances, and more so in countries undergoing major structural change. GDP for any particular year is also affected by temporary external events, such as world price fluctuations for major exports. Moreover, it is desirable to measure steady-state, or sustainable, GDP. But many countries, like most of Latin America during the late 1970s, may have achieved artificially high GDP levels by mortgaging their future. Thus, the nominal GDP figure for a given year may not be a proper representation. Nevertheless, it is the best single measure available.

Figure 1 (facing page) compares the overall GDP growth of Costa Rica, Central America, and Latin America as a whole, since 1982 (when large-scale USAID assistance began). It shows Costa Rica grew substantially faster than the Latin American average. While Latin America as a whole saw its GDP rise 33 percent from 1982 through 1995, Costa Rica's jumped 74 percent over the same period. In other words, Costa Rica's 1995 economy was 32 percent larger than what it would have been had it grown at the regional average. By 1994, Costa Rica was producing annually about $1.5 billion more than if it had grown at the average Latin American rate.* If this estimate could be equated to the impact of USAID, this would produce a satisfactory rate of return on the U.S. government's foreign assistance investment.

While Costa Rica did grow much more rapidly than the rest of Latin America, it is also true that the Latin American region has been surpassed in economic growth by the countries of East Asia. Figure 2 (below) adds the four "Asian tigers" to the comparison of Costa Rica with Latin America. As noted earlier, Costa Rican GDP rose by 74 percent during 1982–95. That of the Asian tigers rose by 140 percent. This suggests that Costa Rican economic growth might have been much faster had Costa Rica adopted more future-oriented policies (e.g., by increasing public investment and reducing gov-

Figure 2. Real Growth of GDP, 1982–95

Costa Rica, Asian Tigers, and Latin America



*These estimates are based on exchange rate–based estimate of GDP. Using estimates based on purchasing power parity, value of the annual addition to production would be substantially larger.

ernment consumption spending). More rapid economic growth would have permitted Costa Ricans to enjoy a higher standard of living, increasing the availability of both private and public goods. For the public sector, Costa Rican growth at the rate of the Asian tigers from 1982 through 1995 would have permitted Costa Rica to simultaneously increase public investment by 50 percent, eliminate the fiscal deficit, and reduce tax rates. In sum, faster growth would have made choices easier.

Was Costa Rican Development Inevitable? The Challenge Of Evaluating History

Costa Rica by 1995 was surely a development success. Ordinary citizens live longer, healthier lives; are better educated; and live in a vibrantly democratic society. It is difficult to treat history without addressing causality and inevitability. Some have argued that Costa Rica's development success is an inevitable outcome of its previous history. For example, its long democratic tradition, an emphasis on public education sustained for more than a century, and relative socioeconomic equality among its yeoman farmers all make this a credible story. If this is the full story, however, then organizations like USAID are largely pointless. Taken one step further, there is no role for heroic Costa Rican statesmen; each Costa Rican leader simply becomes a cog in the machinery of historical inevitability.

The problem with inevitability is that it is based on hindsight. Certain features of the historical situation are seen as determining the future, while others that would suggest other futures are seen as irrelevant or minor. The 1948 civil war might have been the start of a half-century of internecine violence, but it was not. It is also easy to forget how historically contingent is much else that happens in the world. For example, was it inevitable that Beirut would become an international symbol of anarchy, ethnic warfare, and the law of the jungle? After all, it was the "Paris of the Middle East" in the early 1960s—where Muslims, Christians, and Jews could live in harmony; where oil sheiks could escape the rigors of Ramadan; and where prosperity, based on the growing oil wealth of the region and the entrepreneurial spirit of the Lebanese, seemed almost inevitable.

Ideally, the historian or evaluator of foreign assistance programs would work with an infinite number of cases, each varying from others in one or two specifics that can be isolated and compared. For example, USAID evaluators would have available a country identical to Costa Rica in all particulars in 1945, but that received no funding from USAID in the subsequent half-century. Whatever differences that evolved over the decades could then be attributed to USAID assistance.

Of course, no such analytical opportunities exist. A less stringent approach would be to find a country somewhat similar to Costa Rica in 1945 and observe its evolution since. The closest parallel in 1945 would probably be Uruguay. With approximately the same population as Costa Rica, it had a long democratic tradition, an educated population, and a tradition of benign and socially conscious government. Uruguay was sometimes called "the Switzerland of South America," just as the corresponding title has sometimes been used for Costa Rica. (The name also had a racial overtone, denoting a largely European stock that settled and worked land where few Indians had lived.) The similarity of the two countries led to their being directly compared as part of a set of case studies for a World Bank research project (Rottenberg 1993).

If historical inevitability holds true, both countries should have continued their similar trajectories from 1945 until the present, except for the effect of differing external factors. A significant one is that Costa Rica received about 10 times as much economic assistance from USAID as Uruguay. Of course, there was a multiplicity of other external differences as well—in the trends in commodity prices for both countries' exports, in the behavior of their neighboring countries, and in myriad other factors.

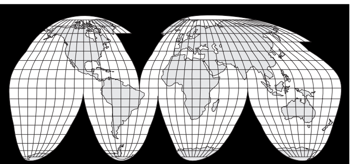
In any event, the two countries diverged substantially during the 50 years after 1945. Uruguay was unable to address internal social and economic conflicts within a climate favorable to economic growth (Favaro and Bensión 1993). Heavy taxation of the main exports (beef and wool) gradually undermined prosperity by lowering production and export of these products. Consequently, the country was increasingly unable to pay for the extensive social welfare system that had grown up in previous decades. Political conflicts over how to cover the shortfalls could not be resolved amicably. Populist policies, such as price controls that reached down to the price of a slice of plain pizza, and electricity rates that left the utility unable to finance expansion or adequate maintenance, further undermined the basic productive structure.

Social tensions in Uruguay gradually mounted through the 1960s; conflicts became more open and hostile, leading to a significant guerrilla movement in opposition to the government. This was followed by repression, a military coup in 1973, more political repression, political prisoners, torture, and exiles. Democratic rule was finally restored in 1985, after 12 years of military rule. Sustained economic growth occurred neither during the years of military rule nor in the decade since, and economic and social conflict continues to characterize the country.

Rottenberg's study was based on data through 1985; it predicted a poor economic future of Costa Rica, going by "striking" similarities in the public policy regimes in the two countries. Both offered extensive protection to their domestic manufacturing sector, both taxed the rural sector for the benefit of urban dwellers, and both redistributed income significantly through a variety of public means, including public employment and redistributive (and unfunded) social security systems. The main difference between the two countries, in Rottenberg's view, was when the policy sets were initiated. Uruguay's policy set, adopted gradually in the decades after 1918, produced stagnation from the early 1950s onward. Costa Rica adopted the same policies gradually after 1948, and in Rottenberg's view, achieved stagnation in the late 1970s. (In Rottenberg's model, the rapid buildup of external debt after 1975 that led to the debt crisis in the early 1980s would have been a symptom, rather than a cause, of Costa Rica's economic problems in the 1980s. The foreign debt was acquired because the state was seeking to deliver more to the people than the country produced.)

The Rottenberg study provides one test of the impact on Costa Rica of USAID assistance during the 1980s: it predicted overcommitment of the state, inability to provide growing foreign exchange earnings, and an incapacity to adapt to its economic circumstances. Thus, Rottenberg would have expected the decline in USAID funding from about $200 million per year around 1985 to near zero 10 years later to lead to intensified economic stagnation. An overall improvement would have to be associated with a change in the basic economic model followed by Costa Rica.

Costa Rican history after 1985 did not follow this inevitability, at least through 1996. Perhaps Costa Rican policymakers were wiser than their Uruguayan counterparts, or Costa Rican citizens more farsighted. Costa Rica is different today because of the presence of U.S. government economic assistance programs, among a mass of other factors. How much different depends on judgments about what happened and why.



5 Lessons Learned

THIS CHAPTER draws a few lessons from the Costa Rican experience that may be relevant for foreign assistance programs in other countries. It asks whether, overall, USAID assistance to Costa Rica was worth the cost.

1. Foreign aid can work. The evidence strongly supports the conclusion that USAID played a strong positive role in Costa Rican development. The fact that successive Costa Rican governments were committed to broad-based growth and to democratic processes made the relationship between the Costa Rican government and USAID consistently one of shared purpose. Indeed, a collaborative style and joint decision-making are perhaps the most notable characteristics of U.S. aid to Costa Rica.

2. "Development science" has progressed. Looking at the prescriptions and projects undertaken by USAID over time, it seems clear that development practitioners have made considerable progress in understanding the development process, though it remains rudimentary in many areas. Many mistaken approaches of the past have been identified and abandoned. Lack of knowledge flawed the high-development and basic human needs approaches. Two cases of this ignorance are worth noting. First, while economists were well versed in the concept of "market failure," they had thought little about the possibility of "government failure." Second, they failed to understand the key role of markets, and particularly that from international trade, in promoting efficiency. When better knowledge showed that existing concepts were inadequate, the better concepts were gradually embraced. At the same time, development policy by no means has become an exact science. Nevertheless, USAID and other development agencies are more effective now than earlier, because they work from a stronger knowledge base.

3. Country experience pays off. The USAID comparative advantage comes in substantial part from the trust that USAID staff members engender in host country officials. To a substantial degree, this can come only from extensive in-country experience. In the technical offices, people who spent long periods (five to seven years) in the country seem to have achieved the most. Of the four Mission directors who were most successful, three were "recycled": they had previous experience in the country.

4. Aid doesn't work in a bad policy regime. The most unsuccessful period in USAID/Costa Rica's history was in the late 1970s, when programs tended to reinforce government policies that were largely unsustainable. Most USAID projects during this period left few permanent results. They presupposed that Costa Rican government resources would grow sufficiently to complement funds provided by USAID and, subsequently, to finance recurrent costs associated with USAID-sponsored activities. Neither assumption was justified. The government was forced to cut back sharply on existing programs, and the welfare of poor people in Costa Rica dropped rapidly during the period when USAID's commitment to direct poverty reduction was strongest.

5. Institution building is harder than it looks. Costa Rica provided a relatively favorable environment for development, yet institution building still proved difficult. The Ministry of Agriculture received substantial support over three decades but never became the development institution envisioned by USAID. Efforts to institutionalize highway maintenance in the Ministry of Transport never completely succeeded. The Costa Rican government recently abolished two institutions USAID had a substantial role in creating—a municipal financing and advisory institute and a national technological research institute. USAID assistance to an environmental nongovernmental organization built up the organization's finances much faster than its institutional stability warranted, and the NGO self-destructed in battles over leadership and direction. The poor performance in this area seems due to simplistic ideas about how institutions should work. USAID staff sometimes assumed that the right organizational structure would lead to decision-making on technical rather than political grounds. This is unlikely to happen, because the operation of an institution will be strongly affected by the unwritten rules of the society in which it is embedded.

6. USAID sometimes jeopardizes its successes by staying too long. USAID work in export promotion during the early years of Costa Rica's structural adjustment was critical to its success. Nevertheless, the continuing abundance of resources and USAID's desire to build on this success led the Agency to maintain a longer, higher profile involvement in export promotion than was appropriate. While the early years were catalytic, the eventual result was an oversized institution too dependent on continued USAID resources. On a larger scale, this lesson probably applies to the entire local currency program, where USAID micromanagement continued too long.

7. Failure sometimes looks like success. Costa Rica's participation in the Central American Common Market looked like a success in 1970, and reputable economists had models that purported to prove it. With a longer term perspective, it now seems likely that the common market hindered Costa Rican growth. Disputes within USAID and Central America about whether the CACM was useful should have been replaced by debates about how the CACM should have been structured to promote development. USAID's efforts during the 1970s to lower the CACM's external tariff—which the World Bank achieved during the 1980s—would have helped prevent the sharp regional crisis of the early 1980s.

8. USAID has a comparative advantage over other donors in policy reform. Costa Rica is the most successful case of structural adjustment in Latin America. Although Chile is acknowledged as currently having the soundest policy regime, it was achieved at great social cost. Chile applied policies espoused by the International Monetary Fund and World Bank more resolutely than Costa Rica did, with unnecessary pain. The Costa Rican case may be unique, though, because of the high level of U.S. assistance provided during the 1980s.

9. Institutional change is critical to development. The Costa Rican experience supports the hypothesis of Douglass North, the Nobelist in economics, that economic development depends on efficient and flexible institutions as well as on correct economic policies. By institutions, North means the informal rules and procedures as well as the formal ones. Dialog by USAID with Costa Rican intellectuals and politicians, particularly during the last two decades, has done much to change the way Costa Ricans have perceived their situation and prospects, and consequently to adapt their institutions to meet the challenges of a changing world environment.

The Bottom Line: Was It Worth It?

U.S. economic assistance to Costa Rica significantly contributed to Costa Rican welfare. Costa Ricans are healthier, wealthier, and better educated than they would have been without U.S. assistance. Income distribution is more equal than it would have been, and the country's environmental base is maintained better than it would have been without U.S. assistance. Early technical assistance and training were key factors, because they established collaborative relationships between Costa Ricans and Americans, which speeded the flow of ideas. Such ideas embodied more productive ways of working that were critical to building up the capacity of Costa Rican institutions to deliver basic services to the people, and ways of increasing the productivity of the economy. But these benefits came at a cost to American taxpayers. Did they get their money's worth?

The best way to answer this question is to compare the expectations Congress had when it appropriated the money with the outcome of the aid. In the broadest terms, Costa Rica has met expectations. It continues as a vibrant democracy with respect for human rights, a model for other countries. After a rocky period in the early 1980s, its economy has successfully adapted to a changed world economy. It is a world leader in ecosystem management. If all developing countries had matched Costa Rica's progress on economic, social, and political indices, there would be fewer complaints about the effectiveness of foreign aid.

The assessment is even more strongly positive with respect to the large-scale assistance the United States provided during the 1980s. Costa Rica used U.S. resources effectively, and its leaders, notably then-president Arias, took the lead in formulating an approach that restored peace to Central America.

Finally, the U.S. Congress and the American people would consider the economic assistance successful to the extent that Costa Rica no longer requires U.S. economic aid. If Costa Rica were itself later to offer a helping hand to contribute to the development of its poorer neighbors, that would be the ultimate evidence to the American public that U.S. assistance had succeeded in broad moral terms.

Appendix

Sectoral And Crosscutting Evaluation Reports

1. *Macroeconomic Policy*, by Thelmo Vargas (26 pages).

2. *Financial Sector Programs*, by Miguel Loría (30 pages).

3. *Trade Policy and Programs*, by Edna Camacho (30 pages).

4. *Health Sector Activities*, by Leonardo Mata (66 pages).

5. *Family Planning Programs*, by Víctor Gómez (29 pages).

6. *Education Activities*, by María Cecilia Dobles and Juan Manuel Esquivél (38 pages).

7. *Agricultural Programs and Policies*, by Carlos Pomareda (26 pages).

8. *Natural Resource Activities*, by Rafael Celis (43 pages).

9. *Democracy and Governance Activities*, by Daniel Masis (20 pages).

10. *Infrastructure Programs*, by Enrique Angulo and Ricardo Echandi (32 pages).

11. *Life in Two Costa Rican Villages, 1950 and 1995*, by Ivelina Romagosa and Amilcar Castañeda (77 pages).

12. *Impact of Costa Rican Nontraditional Agricultural Exports*, by Kathleen Horkan (30 pages).

13. *USAID/Costa Rica and PVOs: Three Cases*, by Kristin Goss (28 pages).

Background Documents

1. *USAID in Costa Rica: An Overview*, by James Fox, provides a summary of USAID programs and strategies from 1945 to 1995 (20 pages).

2. For an economist's interpretation of the economic forces at work and economic poli-

cies tried in Costa Rica between 1945 and 1995, see Ricardo Monge's *Economic Overview of Costa Rica* (38 pages).

3. *Interview Summaries with American Former USAID/Costa Rica Staff.* 1- to 2-page summaries with a 18 Americans about their experience in Costa Rica (25 pages).

4. *Interviews With U.S. Ambassadors*. Long interviews with five ambassadors who served in Costa Rica, from the State Department oral history project (80 pages).

5. *Interviews With Costa Rican Professionals*. Summaries of some 50 interviews (6–7 pages each, in Spanish) of Costa Ricans who worked on, or were knowledgeable about, USAID activities (300 pages).

6. *AID and Multilateral Assistance to Costa Rica, 1946–63,* by Sasha Muench. A statistical summary of assistance flows from USAID and the other principal sources (36 pages).

7. *Costa Rica Impact Assessment Issues and Methodology,* by James Fox. This summarizes the evaluation approach and the main questions to be addressed in each of the sector evaluations (10 pages).

8. *Costa Rican Students Who Have Studied Outside the Country*, by Sasha Muench. This is a statistical compilation of data on foreign study by Costa Ricans (8 pages).

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