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Costa Rica
Country Assistance Evaluation

November 16, 2000

Operations Evaluation Department

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Abbreviations

ASIL	Agricultural Sector Investment Loan
CAE	Country Assistance Evaluation
CLASC	IFC's Latin America and Caribbean Department
CNP	Agriculture Marketing Agency *(Consejo Nacional de Producción)*
CODESA	Costa Rican Development Corporation *(Corporación Costarricense de Desarrollo)*
ESW	Economic and Sector Work
FAO	Food and Agricultural Organization of the United Nations
FIAS	Foreign Investment Advisory Service
GDP	Gross Domestic Product
GNP	Gross National Product
IADB	Inter-American Development Bank
ICR	Implementation Completion Report
IFC	International Finance Corporation
IMF	International Monetary Fund
INS	National Insurance Company *(Instituto Nacional de Seguros)*
LCR	Latin American & Caribbean Regional Office
OED	Operations Evaluation Department
PAR	Performance Audit Report
PSR	Project Status Report
PUSC	*Partido Unidad Social Cristiana*
SAL III	Third Structural Adjustment Loan
USAID	United States Agency for International Development

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Office of the Director-General
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MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Costa Rica: Country Assistance Evaluation

Costa Rica is a presidential democracy with a strong legislative assembly committed to growth, the environment and social welfare. It has been a pioneer in incorporating women into the process of development and in making environmental protection profitable for the country. Its economic and social indicators show better results than those in all other lower-middle-income Latin American countries. Historically, however, the pace of reform has been slow and driven by a highly democratic process of achieving consensus. This process has avoided backtracking after reforms have been adopted.

The Bank and the government agree on the broad objectives of the development strategy and on the main elements of the policy agenda. The policy dialogue, however, has suffered because of disagreements on the urgency or political feasibility of some of the required structural reform measures, especially, after two important adjustment loans were cancelled in 1994-95 before they could be made effective.

The 1993 CAS was based on a correct diagnosis of Costa Rica's long-term development problems and included relevant objectives. The outcome, however, was unsatisfactory because the strategy included poorly designed structural adjustment lending instruments. It overlooked the lessons of experience and it ignored the political conditions that determined ownership of the reforms. Following a deadlock on the macro-policy dialogue, the Bank failed to assist Costa Rica, as originally planned, in transport, urban development, female education, and forestry and bio-diversity investment projects. The planned economic and sector work was also only partially delivered. At the Government's request, the Bank relied only on non-lending services, mainly financed through grant facilities, and advised the country on several technical matters. The government continued to advance toward the strategy's objectives, at its own pace and with financial assistance from other donors and domestic borrowing.

Historically, most of the Bank's portfolio in Costa Rica has produced satisfactory development outcomes. In particular, 100 percent of Costa Rica's US$310 million portfolio evaluated by the Bank during 1993-99 has achieved satisfactory development outcomes. This seems to indicate that Costa Rica's characteristically slow pace of reform has not prevented good performance in projects. Many challenges, however, still remain. The government remains unable to reduce the fiscal deficit in a sustained way, the public domestic debt is excessive, and the state still plays a major role in production and financial activities. The financial sector, infrastructure, urban administration, conservation and social programs still call for long-term capacity development and policy reform. Health and education, once the envy of other Latin American countries, have recently deteriorated.

Given these needs and Costa Rica's adequate overall project performance, the Bank should be able to intensify its lending and ESW program by reviving its earlier plans to invest in forestry and bio-diversity, transport, urban development and female education. Most of these areas have in common that the expected social and economic benefits of investments are high and reasonably unaffected by Costa Rica's traditionally slow pace of structural reform. The Bank should also consider lending support to

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Preface

This country assistance evaluation (CAE) assesses the relevance, efficacy and efficiency of the World Bank's assistance strategy for Costa Rica in the 1990s. It also examines the influence that the strategy for the1980s had on determining the relevance and effectiveness of the strategy for the 1990s. To assess relevance, the CAE examines the diagnosis of Costa Rica's long-term development problems at the time the Board approved the last country assistance strategy in 1993 (CAS 93). It also examines the objectives of the 1993 strategy and their relationship with its lending and non-lending instruments. To assess efficacy, the CAE examines the progress achieved so far toward implementing the strategy's objectives. To assess efficiency, the CAE compares the cost for the Bank of handling Costa Rica's program with its cost for similar lower-middle-income Latin American countries.

The objective of this CAE is to examine the relationship between the Bank and Costa Rica in the past in order to derive lessons for designing the future Bank country assistance strategy. Its findings are based on a review of Bank documents, country assistance strategy papers (CASs), implementation completion reports (ICRs), performance audit reports (PARs), supervision reports, and project files. The findings of the CAE are based also on interviews with government officials and Bank staff who were associated with Costa Rica in the 1990s.

An OED mission visited Costa Rica in June 2000 and discussed this report with the authorities. Their comments have been incorporated. OED also discussed the main findings with former Government officials, members of the opposition and civil society.

1. Background

1.1 *A democracy committed to growth, social welfare and the environment.* Costa Rica is one of the most stable democracies in Latin America, with a long-standing commitment to economic growth, social welfare and the environment. In 1949, the country enacted a new Constitution abolishing the army and giving the state the explicit task of promoting social welfare and income distribution. In the eighties, after the debt crisis of 1982, Costa Ricans embraced an outward-oriented, export-led growth model based on the promotion of non-traditional exports. The Government initiated comprehensive reforms in 1983, mainly with the support of the Bank, IADB and USAID. Following unilateral trade liberalization in 1986, real GNP grew at a healthy average annual rate of about 4.5 percent over 1988-98. Growth and the absence of military expenditures allowed the Government to devote a high share of public funds to social security, social programs and environmental concerns. Social indicators are among the best in the developing world. Costa Rica has become a pioneer in incorporating women in the process of development and in making environmental protection profitable for the country.

Table 1.1: Costa Rica and Lower-Middle-Income Latin American Countries. Key Indicators, 1988–1998

	Costa Rica	*Guatemala*	*Ecuador*	*Dominican Republic*	*Jamaica*	*Paraguay*	*Colombia*	*Peru*	*Panama*	*Venezuela*
Real GNP growth (annual %)	4.5	4.1	3.9	3.7	2.5	3.4	3.8	2.6	2.3	2.6
Real GNP per capita growth (annual %)	2.4	1.5	1.5	2.0	1.4	0.3	1.9	0.5	0.8	0.0
Gross domestic investment (% of GDP)	20.8	14.1	19.4	24.6	31.1	21.7	17.7	19.8	19.0	17.7
Foreign direct investment, net inflows (% of GDI) *1998 data n.a.*	11.9	7.5	10.2	9.9	10.7	7.2	11.6	9.0	12.2	10.9
Illiteracy rate, adult total (% of people 15+)	5.0	33.4	9.3	17.5	14.5	7.5	9.0	11.3	8.9	8.0
Immunizations, DPT (% of child under 1 year)	88.6	67.1	72.6	63.2	87.6	76.4	83.8	81.5	82.8	61.4
Life expectancy at birth, total (years)	75.9	62.7	69.0	69.9	73.8	68.8	69.5	67.0	73.1	71.9
Mortality rate, infant (per 1000 live births)	13.5	50.1	39.4	46.3	13.6	27.1	27.5	48.8	24.1	22.7
Safe water (% of population with access)	97.0	62.8	59.0	62.0	82.1	36.0	84.3	60.7	83.5	28.7

Source: WDI/GDF Central – SIMA Indicators

1.2 *The economy has been vulnerable to external shocks and policy reform to the electoral cycle.* Costa Rica's economic and social progress has been uneven over time, with ups and downs partly associated with electoral cycles (presidential elections every four years) and/or external shocks (high vulnerability to changes in the terms of trade). In addition, high domestic debt has made macroeconomic management difficult. Serious financial imbalances emerged in 1990 and in 1994-95, leading to a questioning of the long term-viability of the Costa Rican model. The 1994-95 crisis was compounded by a banking scandal that led to the closure of the state-owned Anglo-Costarricense Bank, the oldest and third largest commercial bank in the country. Foreign investors complain of excessive bureaucracy, expensive labor costs and too much government involvement in the economy. In spite of this, foreign private investment continues to expand due to Costa Rica's relative political stability, commitment to economic openness, excellent educational system, market access, and high quality of its labor force.

1.3 *Costa Rica's reform program is shaped by uncertain political consensus.* Costa Rica is a presidential democracy with a strong Legislative Assembly. The current President—Miguel Angel Rodriguez, elected for a period of four years— assumed office on May 8, 1998. The Government's political organization, headed by the Partido Unidad Social Cristiana (PUSC), does not hold a majority in Congress. The Government has relentlessly exerted itself to achieve consensus on a reform package during the first 18 months of its administration. Yet, it has faced strong political challenges to get support for its reform program. The need for wide political consensus cannot be overemphasized, as many reforms in the past have failed due to lack of Congressional support. This is probably the main factor behind the slow pace of structural adjustments, in a country where most of the population seems to favor these reforms.

2. The Reform Program

2.1 *The economic program before 1982.* Costa Rica's economic development model before 1982 was based on heavy involvement of the state in a wide range of activities and upon import substitution industrialization with high barriers to trade. Economic and social conditions improved continuously for over twenty years. Nevertheless, after a strong decline in coffee prices in 1978 and the oil crisis in 1979, Costa Rica did not adjust public expenditures accordingly. At this time, import substitution was reaching its limits and external financing from commercial banks was drying up. The Government was forced to suspend servicing its external debt. This led to a major crisis that exposed the structural weaknesses of the Costa Rican economy. In dealing with the crisis, the Government initiated a stabilization program supported by the IMF in 1982 and a structural adjustment program supported by the Bank, IADB, and USAID in 1983.

2.2 *Structural reforms of 1984-93.* Oriented toward liberalizing international trade and reducing the role of the state in productive activities. The main objective of Costa Rica's reform program after the 1982 crisis was to overcome two severe impediments to growth: the anti-export bias of the trade regime and an overextended and inefficient public sector. The reforms aimed at reducing effective protection, increasing incentives to exporters, reducing the role of the public sector in production, and improving the efficiency of public sector institutions. The Government was committed to reducing export taxes, maintaining a competitive exchange rate and decreasing the level and dispersion of import taxes. It was also committed to maintaining a freeze on public sector employment and limiting the practice of revenue earmarking. In addition, it pledged to streamline the public investment program, reduce the Agricultural Marketing Agency's

(CNP) losses and divest enterprises owned by the Costa Rican Development Corporation (CODESA).

2.3 *Structural reforms of 1994-99.* Oriented toward tax, expenditure and pension reforms, restructuring the public sector, increasing private sector participation and advancing financial sector reform. Successive Governments have long recognized that Costa Rica's vulnerability to external and domestic shocks is exacerbated by structural weaknesses in the public sector. Hence, the Government's agenda for reform during 1994-99 gave priority to re-defining the role of the state and improving the efficiency of private markets, while continuing to provide for poverty alleviation and protecting the environment. President Jose M. Figueres (1994-98) had to deal with a banking crisis and an unsustainable fiscal deficit. In spite of political difficulties, the Government was able to continue the trade liberalization program, improve fiscal discipline through tax, expenditure and budgetary reforms, and managed to attract a significant volume of foreign direct investment in high-tech industries. The Government of President Miguel Angel Rodriguez (1998-2002) has given high priority to move forward financial sector reforms and to open public enterprises to competition with the private sector. Specifically, important areas for reform include changes to the banking and social security systems and to the regulatory framework to allow private participation in public utilities and natural monopolies controlled by the state. The authorities, however, have not yet been able to garner congressional support for all of these reforms. Further infrastructure development, better targeting of social programs and increased participation of the private sector in environmental protection are also high in the Government's agenda.

Box 2.1: Costa Rica Relations with the IMF

In the1990s, the IMF approved three Stand-by operations and one staff-monitoring program for Costa Rica. The Government of Costa Rica did not draw from the last two precautionary Stand-by operations approved in April 1993 (SDR21.04 million) and in November 1995 (SDR52.00 million) respectively. The staff monitored program was in place between October 1997 and April 1998 to facilitate the transition to the administration of President Rodriguez, which took office in May 1998.

The last Staff Report for the 1999 Article IV Consultation was presented to the IMF Board in September 1999. The staff appraisal concluded that "Costa Rica made significant progress in opening up the trade system, diversifying its export base, attracting foreign investment, and improving social conditions. However, successive administrations have been unable to reduce the fiscal deficit on a sustained basis and deepen structural reforms. Moreover, the economy has remained vulnerable because of the relatively large domestic public debt with short-term maturity."

3. The Country Assistance Strategy

3.1 *Three stages of assistance strategy.* The Bank's assistance strategy to Costa Rica can be divided in three distinct periods: First, the pre-structural adjustment stage, i.e., before the debt crisis of the early 1980s. Second, the structural adjustment stage, i.e., after the crisis, from 1983 to 1993. Third, the present stage, i.e., from 1993 to date. Before 1980, the Bank's assistance to Costa Rica was concentrated on basic infrastructure and agricultural development. After the crisis of the early eighties, the Bank concentrated on quick disbursing lending to support structural reforms. Project lending was deferred and made conditional on satisfactory progress during the implementation phase of the structural reform program.[1] After 1993, the Bank's assistance was expected to concentrate on one last structural adjustment loan, ESW, and several selective sector investment loans that would be used as vehicles for sector policy reforms. This last period, however, has been characterized by a large undelivered lending program (see para. 4.8), strong negative net disbursements (see para 4.17), and reduced but influential ESW (see para. 4.16). Informal advice, on the other hand, increased notably.

3.2 *The policy dialogue before the Country Assistance Strategy of 1993 (CAS 93).* The most significant event shaping today's assistance strategy derives from the evolution of the relationship between Costa Rica and the Bank during the structural adjustment stage (1983-1993). During this stage, the policy dialogue and the lending program became hostage to the country's slow progress at achieving structural reforms. The experience of appraisal, negotiation, signing, implementation and completion of SAL I (1985-86) and SAL II (1988-92) were not trouble-free. The performance of these loans was characterized by protracted negotiations during appraisal, delayed approval and effectiveness, and serious implementation and supervision problems. In addition, since project lending had been made conditional to structural adjustment performance, the overall Bank-country relationship suffered. Prolonged negotiations led to design problems for both loans. The need for the authorities to seek National Assembly approval for foreign borrowing and for loan conditions led to implementation delays, to non-fulfillment of some conditions, and to a general deterioration of the policy dialogue. The experience of the Agricultural Sector Investment Loan (ASIL) was also difficult: The project originated in 1988/89 through an Identification Report prepared by FAO/WB's Cooperative Program and an Agricultural Sector Report prepared by the Bank. After several preparatory missions, the Bank appraised the project in April 1991, negotiated it for two months in late 1991, approved it in March 1992 and, after several extensions of effectiveness deadlines, terminated it on April 1994. The project never became effective.

3.3 *Lessons learned before CAS 93.* Three main lessons had emerged from OED's evaluation of the Costa Rican experience before the 1993 CAS:

- Key reforms requiring approval by Costa Rica's National Assembly should be acted upon before Board presentation and not as a condition for effectiveness or disbursement. Given Costa Rica's institutional environment, wide social support is needed to get National Assembly approval and to implement reforms. This is a slow process, better pursued without external involvement. Consensus is achieved quickly during a crisis, but approval under duress, such as in 1991 with SAL I, led to policy reversal later. OED found that under normal circumstances, a slow and deliberate process of participation and consensus building has been positive, leading to no backtracking after reforms have been

1. Bank's Assistance: Past experience. President's Report of SAL III, March 1993.

adopted.[2] In addition, as often pointed out by the Bank's legal department, conditions agreed with the Executive should be strictly under control of the Executive and not dependent upon Congress approval.[3]

- In Costa Rica's case, it may not always be appropriate to link potentially productive individual projects to broad sector-policy reforms. For example, the project completion note of ASIL concluded that the success of the project did not depend upon compliance with broad trade and price reforms which had been made into conditions of effectiveness. These conditions were not met in time for the ASIL to become effective and the Bank lost an opportunity to support a potentially good project. Project components included agricultural research and extension, land titling, rural infrastructure and institutional development. These activities would have had high social and economic returns even in a policy environment with price distortions.[4] On the other hand, when trade and price policies are crucial for the results of an investment project, the Bank should ensure that the proper environment is in place before the project is approved, but not as condition for effectiveness.

- Loan conditions should be precise, meaningful and address the root cause of a problem rather than its symptoms. As such, conditions should be complemented with an agreed action program indicating how to achieve the targets and how to measure reliable indicators of progress. The government freeze on employment agreed under SAL I and the target for public sector savings of SAL II were not very effective since there was no understanding of how the targets were going to be achieved and there were not adequate monitoring indicators to measure progress.

3.4 *The 1993 Country Assistance Strategy.* The current Country Assistance Strategy (CAS 93) was presented to the Board in conjunction with a proposal for a Third Structural Adjustment Loan (SAL III) for US$100 million on March 10, 1993.[5] According to the strategy, the third SAL would be the last quick disbursement lending operation to Costa Rica. The strategy also proposed to focus on a highly selective investment program based upon the Bank's comparative advantage at the time. Individual investment projects and ESW would provide the vehicles for sector policy reforms. The overall program was contingent on the Government maintaining an appropriate macroeconomic framework and on a successful implementation of the structural adjustment program. Total Bank lending to support this program over FY93-97 would amount to about US$280 million.

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2. OED, Report No 13263, PAR of Structural Adjustments Loans I and II, June 30, 1994, ch.4.
3. Past and current government officials have pointed out to OED that they and their World Bank counterparts had been aware of this constraint since at least the late 1980s, through the experience with SALs I and II.
4. In theory, if the Net Present Value of a project measured at appropriate shadow prices is higher than the project's opportunity cost, the project is economically justified. Appropriate shadow prices correct for price distortion in a distorted policy environment. As distortions are gradually eliminated, actual and shadow prices would tend to converge. In fact, price distortions were eventually reduced when bipartisan political support for agricultural policy reforms was achieved after May 1994. The Bank, however, could not postpone conditions for effectiveness because these conditions had already been postponed earlier and were two years beyond signing.
5. A similar assistance strategy had been prepared by the Region in October 30, 1992 in the form of a self-standing country strategy paper (CSP).

3.5 *The reform program supported by CAS 93.* Costa Rica's reform program supported by SAL III included actions for public sector reform, poverty alleviation, trade and regulatory framework and financial sector reform. The Government and the Bank fully agreed at the time—and continue to agree today—that these reforms are necessary "to reduce Costa Rica's vulnerability to external shocks and the recurrence of macroeconomic disequilibria prompted by inappropriate fiscal policies". On the poverty alleviation front, the reforms would "enable Costa Rica to resume progress in reducing poverty [...] while at the same time limiting the fiscal cost of ensuring a more equitable society" (President's Report, SAL III).

3.6 *The investment program supported by CAS 93.* Investment projects included a water and sanitation project to rehabilitate infrastructure and improve management, cost recovery and the environment. A health project to improve management and health delivery by the private sector and to develop cost recovery instruments. A forestry and bio-diversity project to support forestry policy, institutional strengthening and better management of ecological resources. A transport project to improve infrastructure and management, and to replenish transport sector investment resources (reallocated earlier to earthquake reconstruction from an existing transport project). An urban project to focus on urban transportation, environment, housing and municipal improvement. Finally, a project in education to improve quality at the secondary level and expand opportunities for female education.

3.7 *The economic and sector work (ESW) program supported by CAS 93.* The ESW program proposed by CAS 93 was expected to produce a Country Economic Memorandum to focus on public sector reform. This report was needed to define the policy agenda for discussion with the Government of President Jose M. Figueres that took office in May 1994. An ongoing forestry sector review would support an operation to improve forestry and bio-diversity management. An urban sector study would help define policies to be included under a proposed urban project. Finally, a Poverty Assessment study would review progress in poverty alleviation and seek improvements in targeted interventions and the poverty orientation of social spending.

4. Evaluating the Strategy

Outcome of Bank Assistance

4.1 *The outcome of CAS 93 was unsatisfactory, although the strategy has regained some relevance lately.* Due to initial design flaws in the strategy, the Bank could not deliver most of its lending and economic and sector work during a difficult period that lasted some time after the cancellation of SAL III in 1995. The strategy was faulty because it included inappropriate adjustment lending instruments and poorly designed reforms, including the passage of legislation as a condition to be met after Board approval and before loan effectiveness. As the period progressed, however, the policy dialogue improved. The government explicitly requested the Bank to reduce lending and to increase technical advice. The Region believes this request was due to a lack of counterpart funds in light of Costa Rica's fiscal position. While this was the case in 1995 when the Government had to cut public investment very drastically to cope with the financial crisis, it was less so in 1996 and thereafter. OED, on the other hand, believes that the authorities were uninterested in Bank lending because of their perception that it would be difficult to reach agreement with the World Bank on a feasible program, in light of their experience with SAL III. The Bank, accordingly, supported the objectives of the strategy mainly through non-lending services, providing advice to implement those reforms that had achieved political support and contributing with studies to help achieve consensus on those reforms still under discussion in the Assembly. The country has continued to implement reforms at its own pace, with financial assistance from other donors, domestic borrowing and, lately, by selling bonds in the international capital market. In fact, the government has achieved many of the SAL III objectives, but has left other relevant objectives undone, pending the nurturing of a political consensus.

Relevance

4.2 *Highly relevant objectives, but poor design.* OED concludes that the Bank Country Assistance Strategy reviewed by the Board on March 1993 was based on a correct diagnosis of Costa Rica's long term development problems and included highly relevant objectives. Nevertheless, the CAS 93 included inappropriate lending instruments, overlooked lessons of experience and ignored political conditions determining ownership of the program. Consequently, the Bank was unable to deliver most of its proposed ESW and lending program and the policy dialogue deteriorated. Lately, however, the strategy has regained relevance and the policy dialogue has improved. The Bank provided advice on several technical matters, responding quickly to many formal and informal requests made by the authorities. The lending program, however, still needs improvement and the process by which the Bank provides advice needs to be revised. In particular, studies financed through grant facilities and the advice provided should be submitted to at least as rigorous a process of quality assurance as that expected from ESW.

4.3 *Agreement about diagnosis and objectives, but not about urgency or political feasibility.* The Government of Costa Rica and the Bank have an excellent understanding of Costa Rica's long term development problems, and fully agree on the broad objectives of the development strategy. They have also had a general agreement on the main elements of the policy agenda. Nonetheless, the Bank and the Government have often disagreed on the urgency and feasibility of some of the specific measures required. Policy makers have felt that the required institutional changes will take many years to implement. Meanwhile, social and economic indicators continue to perform better than in other countries. A sense of urgency is not always present. The policy dialogue has suffered because different perceptions of urgency have made the process of appraisal, negotiations, signing, effectiveness, implementation and supervision of SAL operations extremely slow and difficult. The policy dialogue has also suffered because many agreed measures could not be fully implemented, and the Bank felt forced to compromise in order to find solutions that would permit disbursement releases without full compliance to SAL conditions.[6] In the process, over the last fourteen years, both sides have accumulated displeasure with the outcome of Bank-financed structural adjustment.

4.4 *CAS 93 included inappropriate lending instruments.* The Structural Adjustment Loan III (US$100 million) and the Agricultural Sector Investment and Institutional Development Project[7] (US$41 million) were not appropriate instruments to pursue the proposed objectives. SAL III included comprehensive institutional reforms in the public, financial and social sectors. While these reforms could not possibly be carried out during the normal disbursement profile of one quick disbursement SAL, CAS 93 explicitly ruled out any further structural adjustment lending. SAL III also included reforms to the public sector, which required Congress approval that led to delays and finally forced the cancellation of the loan. ASIL was an investment loan linked to broad sector conditions not directly related to its investment activities. Those conditions, in the context of Costa Rica's political environment, prevented effectiveness of a potentially good project two years after its approval.

4.5 *CAS 93 included poorly designed reforms in spite of available lessons of experience.* The lessons of experience show that Costa Rica has always been a slow reformer, but also that the Bank has been a slow learner. The assistance strategy reviewed by the Board in 1993 was closely associated to the design of SAL III (March 10, 1993). In spite of about nine years of earlier bad experiences and of explicit recommendations to the contrary,[8] SAL III included the passage of legislation as a condition to be met after Board approval and before loan effectiveness. Bank staff had insisted during negotiations that these conditions should be met before the loan was to be presented to the Board for approval, but LCR (Latin American & Caribbean Regional Office) senior management overruled the staff and the Board approved the loan as presented to them by senior management. This was a mistake. The Bank had to extend the deadline for effectiveness of SAL III six times while waiting for the authorities to achieve the required passage of legislation by the National Assembly. After that, the Bank could not declare the loan effective and had to cancel it two years after Board

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6. Although "three major conditions of second tranche release had not been met...[ ]...there was pressure to disburse soon, in order not to jeopardize an IMF program nor to disrupt relations with the private external creditors banks". Performance Audit Report No 13263, June 30, 1994.

7. The Agricultural Sector Investment and Institutional Development Project did not strictly belong to the FY 93-97 lending program proposed by CAS 93. The Board had approved this loan on March 1992. Nevertheless, the loan had not become effective at the time of CAS 93, which reported that the loan had been submitted to the Assembly for ratification.

8. The Loan committee had recommended, as far back as 1984, that "key conditions of SAL I requiring Assembly approval should be approved (by the Assembly) before Board presentation". Bank management did not follow up with this recommendation. OED's performance audit reports concluded that the Bank was forced to delay effectiveness of SAL I because the Assembly did not approve on time an accompanying technical assistance loan which had been made a condition for effectiveness of SAL I. In addition, three major conditions for the release of the second tranche of SAL I -one of which being tariff reform- did not achieve Assembly's approval. The effectiveness of SAL II was also delayed for about one year for the same reason, a requirement for the Assembly to approve a tariff adjustment program. Effectiveness of ASIL, approved by the Board in March 1992, had already been delayed for about one year by the time CAS 93 was presented to the Board due to similar difficulties. The Assembly did not approve agricultural trade and price reforms. Given all the available evidence, it is hard to understand why the design of SAL III required the passage of legislation after Board approval and before effectiveness. OED could not find documentation justifying this decision.

approval. The policy dialogue deteriorated and affected negatively the overall lending and non-lending program of the 1993-99 period.

4.6 *CAS 93 ignored political conditions.* The Bank assistance strategy was undermined by a poor appreciation of the political conditions determining ownership of the reform program. The Project Completion Note of SAL III concluded that the loan was terminated because the program was designed, negotiated and signed by one Administration. Its implementation, however, was left to a new Administration that had a markedly different approach to the issues involved.[9]

4.7 *Lately, the policy dialogue has improved.* After the initial failure of CAS 93, the Bank has made significant efforts at improving the assistance strategy and improving the policy dialogue by providing technical advice and responding quickly to many formal and informal requests made by the authorities. The Bank has provided an array of non-lending services to support pension and financial sector reforms, foreign investment, energy, environment, forest conservation, bio-diversity, social programs, health, education, gender, rural electrification, postal services and information technology. The advice has sometimes been informal, has not been subjected to the same rigorous scrutiny by Bank peer reviewers as that expected from ESW, and has not been subjected to formal ex-post evaluation by the Bank. Bank staff, however, has supervised the selection of consultants and the delivery of technical advice. Most of this assistance, has become an important source of advice to implement reforms that achieved political consensus and a source of information to help achieving consensus on policy matters still under discussion.

Efficacy

4.8 *Costa Rica has achieved satisfactory progress toward the objectives of CAS 93 with minimal financial support from the Bank.* OED concludes that Costa Rica has advanced significantly toward many of the objectives proposed under the strategy of CAS 93. This progress was achieved in spite of minimal financial support from the Bank. The Bank Board approved only two loans for US$38 million in 1993 after SAL III, and nothing since (see Table 5b). The Bank, however, as mentioned above, has intensified its efforts at providing assistance through several grant programs, especially from the Global Environmental Facility, Human Resources Development and Institutional Development grants. A total of about US$19 million in twenty grants from these different facilities have been approved between FY93 and June 30, 1999.[10] In addition, IFC and FIAS have contributed to develop opportunities to attract private foreign investment and expand private sector activities (see Box 4.1).

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9. Project Completion Report No. 12952 of April 12, 1994 and OED's Performance Audit Report No. 13263 of June 30, 1994.
10. See Costa Rica- Grants summary, Annex A, Table 9.

Box 4.1: IFC's Portfolio has Achieved Satisfactory Outcome

The Strategy and Coordination unit of IFC's Latin America and Caribbean Department (CLASC) concluded that, "despite a less than satisfactory enabling environment, IFC has been able to satisfactorily meet the development impact objectives of its projects in Costa Rica."

IFC has financed relatively small projects in Costa Rica in the 1990s (average size of about US$5 million each), except for a US$40 million investment for the expansion of a retail operation in FY99. Its total portfolio of US$66.3 million is high, as a percentage of GDP, compared to IFC's portfolio in Latin America. Recently, IFC has prepared Investment Evaluation Reports for two projects in the financial sector, both with satisfactory development outcome. These projects supported export oriented small and medium private enterprises and contributed to capacity building in domestic banks.

IFC's future activities in Costa Rica depend mainly upon Costa Rica's pace of reform in opening new sectors, such as infrastructure, to private participation. In the interim, IFC will be focusing mainly on projects with regional impact, especially in the financial, agricultural, manufacture and services sectors.

4.9 *Progress at implementing structural reforms.* The Government of Costa Rica has continued to implement its reform program—at its own pace, without much financial assistance from the Bank. It has continued to make progress in opening-up trade and diversifying exports while maintaining political stability. The economic and political environment has become highly attractive to high-tech foreign investment. A public works concession reform was passed in early 1998, which will allow private domestic and foreign investment to have direct involvement in building, maintaining and operating public infrastructure. Legislation to strengthen the national commission of securities and the superintendence of pensions was approved in December 1997. The Central Bank issued regulations covering offshore operations of financial conglomerates. In addition, with the assistance of IADB, the Government is undertaking studies to formulate action plans for the state banks that will remain in the hands of the state. Meanwhile, a liberalization law of the banking system, passed in 1995, dissolved the state banks' monopoly on checking accounts, permitting private banks to expand their activities and market share. The state, however, still dominates the commercial banking system with about 75 percent of deposits and forces private banks to place about 17 percent of their demand deposits in state banks at below market rates.

4.10 *Progress at implementing social and environmental reforms.* The authorities have also undertaken measures to improve the efficiency, targeting and level of social expenditures, including rationalization of government agencies and closer cooperation with private providers of social services. Environmental policies have been strengthened with the passage of the Environment Law in 1996 and the implementation of a plan to divide the country in nine conservation regions. Costa Rica has also actively participated in implementing the agreements of the International Conference on Climate Change, by issuing "green" bonds, allowing industrialized countries to purchase them and receive credits toward the achievement of annual emissions targets. It has also agreed with Canada and the Netherlands on debt-for-nature and aid swaps for about US$40 million to support local sustainable development initiatives.

Box 4.2: Foreign Investment in High Technology: The Case of INTEL in Costa Rica

FIAS concluded early in the 1990s that Costa Rica had an excellent political and economic environment to attract foreign investment in the electronics industry. Political stability, commitment to economic openness, excellent educational systems, high quality of labor force relative to cost, widespread knowledge of English and market access were some of the main positive factors.

FIAS added that Costa Rica could further improve its environment for foreign investment in electronics. There was a need to expand, without decreasing its quality, some of the existing education programs in electronics, including state support to on-the-job training programs. There was also a need to upgrade telecommunications, transport and capital markets infrastructure and to expand the intellectual property-protection system by improving patent laws and the functioning of the judicial system.

The announcement in November 1996 that Intel was going to initiate activities in Costa Rica by investing between US$300-500 million in a new plant over a five-year period was a very welcome development. The Government of Costa Rica was fast to respond and mobilized support in the political and business communities, developing information and assistance to Intel's requests in very short periods of time. It developed an electronics strategy and supported CINDE, Costa Rica's national promotion agency. The Ministry of Foreign Trade coordinated government contacts with Intel under direct stewardship of the President of Costa Rica at the time, Mr. Jose M. Figueres. Foreign direct investment had become a major source of financing to supplement a very low level of domestic savings and scarce foreign financing for investment.

4.11 *Progress in gender policies.* Costa Rica has been a pioneer in incorporating women in the process of development. As early as 1975, the Government had created the National Center for Development of Women and the Family. By the early 1990s, after the approval of the Law to Promote the Social Equality of Women, Costa Rica reached the forefront in sponsoring women's rights with legislation comparable (or even more advanced) than legislation of many developed countries. In addition, a new law against sexual harassment in labor and education was approved in 1995. Although women have equal access to all basic social services and benefit directly from a number of social programs, earning differentials between working males and females still exist, but are much lower than in the rest of Latin America.[11] In addition, there still exists a relatively high incidence of teenage pregnancy, domestic violence against women and cultural factors and attitudes preventing a better integration of women in society. CAS 93 had proposed a project to improve female education, but this project did not materialize. The Bank, instead, continued with its informal policy to assists Costa Rica with non-lending services and approved in 1995 a US$389,000 IDF grant for institutional strengthening to introduce a gender perspective in the agriculture and natural resources sector.

4.12 *Progress in forestry policies.* Costa Rica is considered a pioneer in reforestation, forest management and forest protection policies (Box 4.3). The Bank has influenced forestry policies directly by providing advice and seed money and indirectly by supporting trade and price policies that have reduced the profitability of agriculture and cattle ranching in marginal forest lands. The Bank, however, has not been able to provide

11. Psacharopoulos and Tzannatos, Case Studies on Women's Employment and Pay in Latin America, the World Bank, 1992.

funding for forest activities during 1993-99. CAS 93 was expected to provide lending for a project to support management of conservation areas, but this project did not materialize because of disagreements about project design and scope.

4.13 *Progress in public sector policies.* The Government has achieved approval of a new tax package and reforms to the special pension regimes and workers' rights. It has also reduced the scope of the public sector by scaling down operations and transferring some functions to the private sector. It achieved approval of legislation to allow the private sector to build, own, operate and transfer projects in the telecommunications and electricity sectors. Nevertheless, several legislative initiatives to dismantle state monopolies in telecommunications, electricity and insurance continue to face serious political opposition.

Box 4.3: Forestry and the World Bank in Costa Rica

Costa Rica was once one of the most deforested countries in the world. Today it is a pioneer in reforestation, forest management, and forest protection policies. The financial presence of the World Bank and Bank Group related activities, however, has been very low in Costa Rica. The Bank's influence has primarily been in conceptual and methodological areas and in the provision of seed money. This is the main conclusion of a recent report on forestry prepared by OED.[a]

Following CAS 93, the Bank attempted to prepare a project to improve management of Conservation Areas in 1993, but negotiations failed. The same year, the Bank prepared a Forest Sector Review study. This study introduced many ideas that have influenced local forestry policy. The report made calculations showing that most of the benefits (66 percent) produced by Costa Rica's forests are enjoyed globally. It calculated the value of Costa Rica's forests, it suggested measures to improve the financial management of national parks, recommended deregulating harvesting in forest plantations and argued that subsidies for natural forest management are technically justified. The emphasis of the study was on conservation rather than sustainable exploitation of the forests. The study, however, called attention on the compatibility of forest management and conservation and established criteria for forest protection and for allocating institutional responsibilities in the Conservation Areas.

The Costa Ricans have developed many innovative organizations, mechanisms and tools to implement their policies without financial participation of the Bank. The lack of funding has been mainly due to internal divisions about which strategies to adopt in relation to Bio-diversity and Climate Change Conventions. The Costa Ricans, meanwhile, have approved an environment, bio-diversity and forest law, a decentralized administration of the conservation areas and an innovative system for Payment for Environmental Services to encourage conservation by the private sector and discourage government transfers. In summary, Costa Rica has made significant progress to eliminate deforestation and has developed imaginative tools to manage forestry and conservation. The system, however, still needs consolidation to be sustainable.

a. Forest Policy and the Evolution of Land Use in Costa Rica. OED Draft, June 25, 1999

4.14 *Costa Rica achieved satisfactory development outcome in World Bank's portfolio.* One hundred percent of Costa Rica's portfolio (total commitments of US$310 million) evaluated by the Bank during 1994-99 has achieved satisfactory development outcome (Annex A, Table 5a). Of this, about $200 million corresponds to projects implemented before 1993. This excellent result, however, overestimates development outcome because the evaluation does not include two projects closed during this period without ratings (US$141 million).[12] The evaluation includes only three projects subjected to independent evaluation by OED (US$201 million) and four ongoing projects evaluated by the region, not yet subjected to independent evaluation (US$109 million). Although it is too early to independently evaluate these last four projects, the Bank has rated implementation as satisfactory—procurement regulations, however, continue to be problematic and tend to slow down disbursements. It has also found good availability of counterpart funds, satisfactory implementation of procurement rules and overall progress toward development objectives in spite of often finding macroeconomic policies less than optimal.[13] In addition, the results are based on ongoing projects that are only a small fraction of the lending program originally proposed by CAS 93.

4.15 *Good results.* The overall portfolio of the Bank in Costa Rica, however, has generally achieved better results than in most other clients, over longer evaluation periods. About 87 percent of Costa Rica's portfolio achieved satisfactory development outcomes over the 1970-1999 period. This result is much higher than the 70 per cent or the 74 per cent satisfactory rating achieved in the same period by the LCR or by the Bank respectively. This good performance of Costa Rica's portfolio has continued to be better than the rest of the Bank over most recent periods (1988-97). Costa Rica achieved 80 percent satisfactory development outcome compared to only 73 percent satisfactory in the LCR region and the Bank (Annex A, Table 5a). These overall good results seem to indicate that the slow pace of reform characteristic of Costa Rica has not significantly affected the good performance of projects.

4.16 *A reduced but influential economic and sector work.* The Bank reduced ESW during the CAS 93 period. The Bank prepared an update of a poverty study to identify the needs of the poor and an influential study proposing a pension reform strategy. The Bank, however, failed to complete a Country Economic Memorandum[14] that was needed to define the policy agenda for discussions with the Government of President Jose M. Figueres in 1994. In addition, the Bank failed to produce an urban sector study promised under CAS 93 to define policies to be included under a proposed urban project.

4.17 *Other external assistance.* The reduced financial assistance from the Bank did not significantly affect total multilateral assistance to Costa Rica because IADB has continued to support Costa Rica with highly positive net disbursements (Figure 4.1), mostly due to high disbursements from adjustment loans. Costa Rica has also enjoyed high levels of financial assistance from bilateral grants. This assistance, however, in per-capita terms, has been much lower than that received by other countries with overall

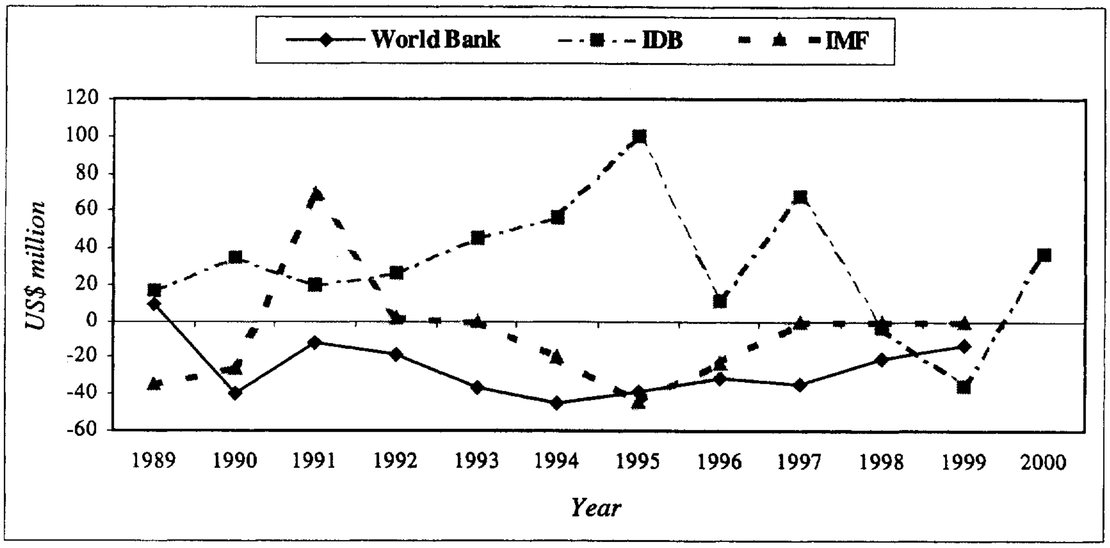
12. This is a normal procedure for projects approved by the Board but which do not become effective, such as SAL III (US$100 million) and ASIL (US$41 million).

13. The ratings of macroeconomic conditions in Project Status Reports (PSRs) of March-June 1999 are not very reliable. OED found inconsistencies in the ratings of these macroeconomic conditions. Two projects rated at the same time, in March 1999, found different macroeconomic conditions, N (low or negligible) and M (modest). In addition, two projects rated in June 1999 found different macroeconomic conditions, M (modest) and S (substantial) at the same time. A possible interpretation would be that equal macroeconomic conditions at the same time in the same country affect specific projects differently.

14. The study was not officially discussed with the Government.

performance not as good as Costa Rica's. More recently, however, the government has successfully placed government bonds in the international market.

Figure 4.1: Multilateral and IMF Net Financial flows



Source: SIMA Database. World Bank Group, OECD, and IMF.

Table 4.1: Official Financial Flows to Latin American Countries, 1994-1998
(Net Disbursements)

Per Capita in US$ Current Dollars	*Argentina*	*Bolivia*	*Costa Rica*	*Ecuador*	*El Salvador*	*Guatemala*	*Honduras*	*Nicaragua*	*Panama*	*Peru*	*Uruguay*	*Venezuela*
Multilateral	**26.0**	**27.3**	*26.1*	**13.4**	**27.3**	**3.9**	**18.6**	**26.4**	**13.1**	**17.6**	**16.2**	**-2.1**
Of Which World Bank	*14.9*	*10.7*	*-12.5*	*3.6*	*2.7*	*0.5*	*3.3*	*6.4*	*-2.5*	*6.9*	*-9.5*	*-2.8*
IMF	**19.2**	**1.2**	*-7.3*	**1.5**	**0.0**	**0.0**	**-3.3**	**0.4**	**2.6**	**1.5**	**-3.4**	**-12.2**
Bilateral	**-10.9**	**3.3**	*-36.3*	**-3.5**	**-0.7**	**1.6**	**3.5**	**5.3**	**-24.6**	**-2.1**	**13.8**	**3.6**
Of Which Bilateral Concessional	*4.7*	*5.5*	*-14.7*	*5.3*	*2.5*	*2.1*	*8.9*	*12.2*	*0:5*	*3.9*	*5.8*	*0.3*
Bilateral Grants	**6.2**	**72.3**	*31.8*	**14.4**	**40.6**	**21.3**	**30.7**	**109.0**	**26.9**	**18.6**	**19.0**	**2.4**
Grants	*0.7*	*43.4*	*10.4*	*4.8*	*15.4*	*11.8*	*16.4*	*78.8*	*4.4*	*10.1*	*3.4*	*0.5*
Technical Cooperation	*5.4*	*28.9*	*21.3*	*9.6*	*25.2*	*9.5*	*14.3*	*30.2*	*22.5*	*8.6*	*15.6*	*1.8*
Total	***40.4***	***104.1***	***14.3***	***25.8***	***67.2***	***26.8***	***49.5***	***141.0***	***18.0***	***35.7***	***45.5***	***-8.4***

Source: SIMA Database. World Bank Group.

4.18 *Huge challenges remain.* Achieving steady growth and eliminating the stop-and-go nature of past performance while protecting the environment and social programs will not be an easy task. The economy continues to be vulnerable to external and/or internal shocks, with a high fiscal deficit, a weak foreign reserve position and very high domestic debt. On average, Costa Ricans devote about 25 percent of total public expenditures to education and about 29 percent to health programs, both among the highest percentages in the developing world. The quality of education and health services provided by the public sector, however, has deteriorated lately. Increasing participation of the private sector in the delivery of social programs and implementing the Government's proposal to privatize state enterprises are of high priority to improve efficiency and to reduce domestic debt. In addition, several scandals surrounding the Government's main social welfare program have added to recent concerns about an alleged increase in corrupt practices. The government, however, has dealt decisively with the problem of corruption and Transparency International has ranked Costa Rica second (i.e. low perception of corruption) among all Latin American countries and 27th in the world.

Table 4.2: High Fiscal Deficit and Domestic Financing, 1995-1999 (as % of GDP)

	1995	*1996*	*1997*	*1998*	*1999*	*Average*
Total deficit	4.0	5.3	3.3	3.2	4.3	4.0
-Non-financial public sector	2.1	3.2	1.5	1.6	2.7	1.8
-Central Bank losses	1.9	2.1	1.8	1.6	1.6	1.8
Total financing	4.0	5.3	3.3	3.2	4.3	4.0
- External financing	-1.2	-2.1	-0.2	0.7	1.7	-0.2
- Domestic financing	5.0	7.1	3.6	2.3	2.6	4.2
- Statistical discrepancy	0.2	0.2	0.0	0.2	0.0	0.1

Source: IMF - Staff Report for the 1999 Article IV Consultation.

4.19 *High domestic debt.* The lower than expected external assistance and the still high public sector deficit have led to one of the major concerns of today: an abnormally high and difficult to manage domestic debt. Central government domestic debt rose from 7.5 percent to 26 percent of GDP between 1988 and 1997. Service payments to this debt are about 33 percent of government revenues and are highly sensitive to changes in monetary policies and movements in external capital flows (making short-term management of the fiscal deficit extremely difficult). Costa Rica has postponed projects with high social and economic returns; in particular in transportation, environment, housing and municipal strengthening, female education and projects in forestry and bio-diversity to improve management of ecological resources.

Efficiency

4.20 Table 6 of the Annex provides an indication of the cost for the Bank to handle Costa Rica's program in comparison with other similar low-middle income Latin American countries, the LCR and the overall Bank. Costa Rica seems to compare favorably with the outcome for LCR and the Bank as a whole. The numbers, however, should be interpreted carefully in order to derive "efficiency" conclusions. The numbers indicate average completion cost per project, supervision costs per project supervised and average cost of ESW reports. Efficiency, however, is a measurement of the rate of return of a program (Internal Rate of Return or Net Present Value), or a measurement of least cost per unit of output or benefit. Since the total benefits of the Bank's assistance program for a country are non-quantifiable, we have used "dollars committed in projects with satisfactory development outcome" as a proxy for benefits. The cost of operation of the Bank lending program in Costa Rica (dropped, lending, unscheduled ESW, scheduled ESW, and supervision costs) per each US$1,000 of loans commitments with satisfactory development outcome is shown below. Under this measure, Costa Rica compares less favorably than about half the countries classified as lower-middle-income in Latin

American during 1988-93 and shows worsening efficiency over 1994-98. On the other hand, the Bank's efficiency with respect to non-lending services has been highly satisfactory.

Table 4.3: Costa Rica and Lower-Middle-Income Latin American Countries. Total Cost of the Assistance Strategy per Dollar Committed in Loans with Satisfactory Development Outcome

	1988-1993			*1994-1998*		
Country	*Total Cost*	*US$ Net Commit. (million)*	*Cost/US$ Commit. (x 1,000)*	*Total Cost*	*US$ Net Commit. (million)*	*Cost/US$ Commit. (x 1,000)*
Colombia	10.99	2562.00	4.30	13.45	2616,7	5.10
Costa Rica	2.90	256.60	11.30	2.58	129.6	19.9
Dominican Republic	3.20	46.10	69.50	3.53	404.8	8.7
Ecuador	6.63	430.40	15.40	10.23	910.60	11.20
Guatemala	2.46	81.90	30.00	4.30	517.90	8.30
Jamaica	4.85	228.90	21.20	6.79	276.60	24.60
Panama	1.00	162.50	6.20	4.13	312.50	13.20
Paraguay	2.75	123.60	22.20	7.55	157.00	48.10
Peru	3.57	712.50	5.00	10.26	2433.10	4.20
Venezuela	2.61	351.00	7.40	6.74	740.30	9.10
LA and Caribbean	145.54	20895.00	7.00	221.84	44961.40	4.90

Source: PBD and OED

Institutional Development

4.21 *OED rated institutional development as modest* in all projects reviewed or evaluated between FY94-99 (Structural Adjustment Loans I, II and III, Agricultural Sector Investment Loan, and Atlantico Agricultural Development Loan). The institutional development impact of non-lending services is potentially significant, but it is too early to evaluate it. Non-lending services have provided valuable information and advice that have influenced reforms affecting the "rules of the game" in forest conservation, bio-diversity, social programs, health, education and gender policies. They have also influenced the discussion of still unresolved political issues about increasing private participation in key strategic sectors, reforming the pension system, restructuring and/or privatizing state banks and strengthening prudential regulations and supervision of financial intermediaries.

Sustainability

4.22 *Reforms have been slow, but with little backtracking.* OED's main conclusion about the sustainability of its assistance in Costa Rica derives from its long experience with structural adjustment reform. The deliberate political process of consensus-building in Costa Rica has meant that the reform process is slow, but once reform policies are adopted, there is little backtracking. Conversely, reforms approved under duress during a crisis, such as in January 1991, have often seen policy reversals.

5. Conclusion and Recommendations

Conclusion

5.1 *OED concludes that the Bank lost an opportunity to assist Costa Rica financially* since 1993, but that it provided useful advice on technical matters, mostly financed through grant facilities. By conditioning its lending and ESW program on the performance of poorly designed structural reforms politically unfeasible, the Bank gave up the opportunity to influence sector policies and build domestic institutions through financial support for investment operations with high social and economic returns. Although it has continued to implement this program at a slow pace, Costa Rica has achieved better social and economic results than similar countries in Latin America. The slow pace of reform has so far not significantly affected the quality of the Bank's investment projects. The percentage of projects with satisfactory outcome has historically been higher than in other lower-middle-income countries and higher than in Latin America. Domestic debt, however, has increased to dangerous levels and foreign reserves have decreased, while indicators of foreign debt exposure have improved.

Recommendations

5.2 *The Bank Group should prepare a new CAS in close consultation with the government.* FIAS, IFC and the Bank should jointly define the next CAS agenda for action to promote broad-based private sector development and foreign direct investment. Consultation with the main opposition parties and with civil society would be helpful, in view of the very important role played by the National Assembly in enabling reforms and in approving loans.

5.3 *The country assistance strategy should continue to promote structural reforms* by intensifying the policy dialogue through well-planned and properly disseminated ESW. The Bank should also continue to provide advice through non-lending services, including the use of its grant facilities. Studies financed through grant facilities should be submitted to quality assurance at least as rigorous as to that expected from the Bank's ESW.

5.4 *The Bank should broaden its lending and ESW program in Costa Rica.* The Bank's management should consider reviving its lending program and review its earlier plans to invest in areas originally planned in CAS 93, like forestry, bio-diversity, transport, urban development, and education for girls and women. Most of these areas have in common that the expected social and economic benefits of investments are high and reasonably unaffected by the traditionally slow pace of structural reform in Costa Rica.

5.5 Lending to support structural reforms in the financial and public sectors should also be considered if the required legislation is approved before lending is committed. In this case, single tranche loans would be most appropriate.

5.6 To enhance its effectiveness, the Bank group should be selective in the areas of intervention and *should coordinate closely with bilateral and other multilateral agencies* involved in Costa Rica, especially the IADB.

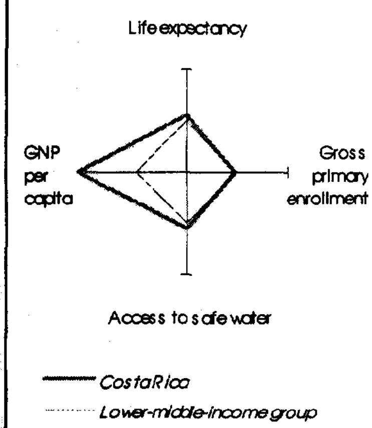
5.7 More generally *Bank management should inform the Board* if it finds that the strategy the Board had endorsed requires important changes during implementation.

Annex Table 1a: Costa Rica At A Glance

10/1/98

POVERTY and SOCIAL	Costa Rica	Latin America & Carib.	Lower-middle-income
1997			
Population, mid-year (millions)	3.5	494	2,285
GNP per capita (Atlas method, US$)	2,640	3,880	1,230
GNP (Atlas method, US$ billions)	9.3	1,917	2,818
Average annual growth, 1991-97			
Population (%)	2.1	1.7	1.2
Labor force (%)	2.5	2.3	1.3
Most recent estimate (latest year available, 1991-97			
Poverty (% of population below national poverty line)	..	..	..
Urban population (% of total population)	50	74	42
Life expectancy at birth (years)	77	70	69
Infant mortality (per 1,000 live births)	12	32	36
Child malnutrition (% of children under 5)	2	..	..
Access to safe water (% of population)	92	73	84
Illiteracy (% of population age 15+)	5	13	19
Gross primary enrollment (% of school-age population)	107	111	111
Male	107	..	116
Female	106	..	113

Development diamond*

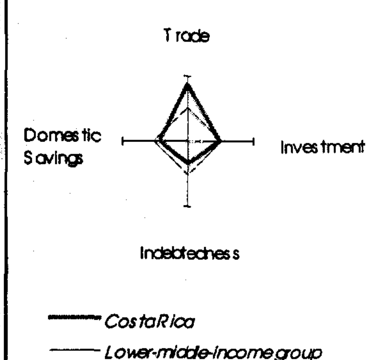


KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1976	1986	1996	1997
GDP (US$ billions)	2.4	4.4	9.0	9.5
Gross domestic investment/GDP	23.7	25.2	22.9	26.8
Exports of goods and services/GDP	28.9	31.3	45.5	46.7
Gross domestic savings/GDP	17.7	26.1	22.0	23.3
Gross national savings/GDP	..	20.7	21.7	22.8
Current account balance/GDP	-8.4	-4.5	-1.2	-3.1
Interest payments/GDP	1.7	4.9	2.2	1.9
Total debt/GDP	40.8	103.9	38.3	37.2
Total debt service/exports	23.7	34.7	14.2	13.3
Present value of debt/GDP	..	..	35.4	..
Present value of debt/exports	..	..	77.7	..

	1976-86	1987-97	1996	1997	1998-02
(average annual growth,					
GDP	1.7	4.1	-0.6	3.2	3.6
GNP per capita	-2.0	2.5	-1.8	1.1	1.8
Exports of goods and services	2.4	9.5	9.1	3.9	6.8

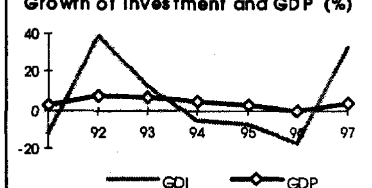
Economic ratios*



STRUCTURE of the ECONOMY

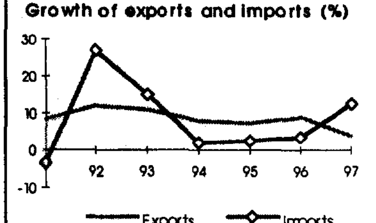
	1976	1986	1996	1997
(% of GDP)				
Agriculture	20.4	20.9	15.6	15.1
Industry	27.4	27.6	24.1	23.2
Manufacturing	19.7	21.3	18.4	17.1
Services	52.2	51.5	60.3	61.7
Private consumption	66.3	58.6	60.2	59.2
General government consumption	16.0	15.4	17.8	17.5
Imports of goods and services	34.9	30.5	46.4	50.3

Growth of investment and GDP (%)



	1976-86	1987-97	1996	1997
(average annual growth)				
Agriculture	1.9	3.5	-0.4	-0.7
Industry	1.4	3.7	-4.1	4.5
Manufacturing	-2.5	3.9	-4.1	4.5
Services	1.8	4.6	1.1	3.8
Private consumption	0.7	3.4	-1.5	2.0
General government consumption	0.8	2.2	1.5	0.5
Gross domestic investment	-1.1	3.6	-16.8	33.5
Imports of goods and services	-1.2	8.7	3.5	12.5
Gross national product	1.0	4.8	0.2	3.0

Growth of exports and imports (%)

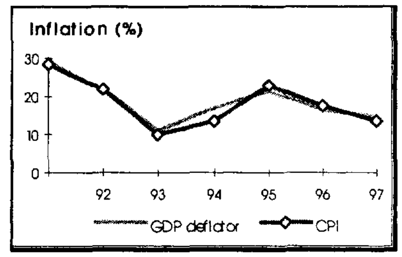


Note: 1997 data are preliminary estimates.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

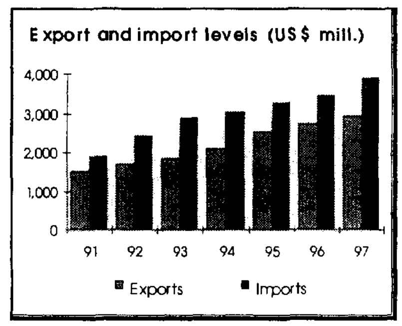
PRICES and GOVERNMENT FINANCE

	1976	1986	1996	1997
Domestic prices				
(% change)				
Consumer prices	..	11.8	17.6	13.3
Implicit GDP deflator	16.6	18.1	16.3	14.6
Government finance				
(% of GDP, includes current grants)				
Current revenue	..	25.0	26.0	26.3
Current budget balance	..	4.4	2.1	3.8
Overall surplus/deficit	..	-1.7	-3.1	-1.6



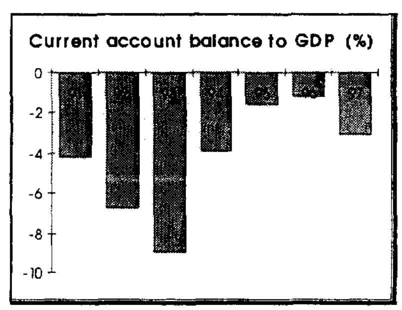
TRADE

	1976	1986	1996	1997
(US$ millions)				
Total exports (fob)	592	1,086	2,708	2,916
Coffee	..	392	386	621
Bananas	..	217	611	635
Manufactures	..	280	1,063	981
Total imports (cif)	..	1,112	3,486	3,901
Food	..	168	501	560
Fuel and energy	..	117	298	348
Capital goods	..	280	636	733
Export price index (1995=100)	..	50	97	100
Import price index (1995=100)	..	67	104	108
Terms of trade (1995=100)	..	74	94	93



BALANCE of PAYMENTS

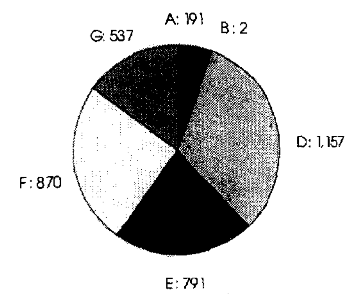
	1976	1986	1996	1997
(US$ millions)				
Exports of goods and services	705	1,397	4,033	4,328
Imports of goods and services	844	1,358	4,110	4,571
Resource balance	-139	39	-77	-243
Net income	-76	-274	-160	-172
Net current transfers	11	38	131	124
Current account balance	-203	-198	-106	-291
Financing items (net)	255	291	44	507
	0	0	0	0
Changes in net reserves	-52	-93	61	-216
Memo:				
Reserves including gold (US$ millions)	..	..	875	974
Conversion rate (DEC, local/US$)	8.6	56.0	207.7	232.6



EXTERNAL DEBT and RESOURCE FLOWS

(US$ millions)	1976	1986	1996	1997
Total debt outstanding and disbursed	985	4,576	3,454	3,548
IBRD	104	413	245	191
IDA	5	4	2	2
Total debt service	169	500	585	597
IBRD	11	55	62	70
IDA	0	0	0	0
Composition of net resource flows				
Official grants	2	97	34	33
Official creditors	68	8	-109	-10
Private creditors	89	-6	-24	-38
Foreign direct investment	61	57	397	400
Portfolio equity	0	0	1	1
World Bank program				
Commitments	39	0	0	0
Disbursements	22	55	10	20
Principal repayments	3	29	42	54
Net flows	19	26	-32	-35
Interest payments	7	26	20	16
Net transfers	12	0	-52	-50

Composition of 1997 debt (US$ mill.)



A - IBRD
B - IDA
C - IMF
D - Other multilateral
E - Bilateral
F - Private
G - Short-term

Annex Table 1b - Costa Rica Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1992-97	Latin America & Caribbean	Lower-middle-income
POPULATION					
Total population, mid-year (millions)	2.0	2.6	3.5	493.9	2,282.9
Growth rate (% annual average)	2.6	2.9	1.5	1.4	0.9
Urban population (% of population)	41.3	44.9	50.3	74.2	42.4
Total fertility rate (births per woman)	4.3	3.5	2.8	2.7	2.2
POVERTY					
(% of population)					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNP per capita (US$)	1,030	1,270	2,680	3,940	1,230
Consumer price index (1995=100)	3	19	133	123	116
Food price index (1995=100)	..	22	136	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Gini index	..	..	47.0	..	..
Lowest quintile (% of income or consumption)	3.0	..	4.0	..	..
Highest quintile (% of income or consumption)	55.0	..	51.8	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	6.0	2.8	2.6
Education (% of GNP)	6.8	4.4	5.3	3.7	5.1
Social security and welfare (% of GDP)	5.1	3.2	6.3	7.4	..
Net primary school enrollment rate					
(% of age group)					
Total	92	84	91	91	99
Male	..	83	..	..	..
Female	..	84	..	..	..
Access to safe water					
(% of population)					
Total	72	93	100	75	78
Urban	100	100	100	83	..
Rural	56	82	99	36	..
Immunization rate					
(% under 12 months)					
Measles	..	81	99	93	93
DPT	..	75	91	82	93
Child malnutrition (% under 5 years)	..	6	5	8	17
Life expectancy at birth					
(years)					
Total	68	74	77	70	69
Male	66	72	74	66	67
Female	70	76	79	73	71
Mortality					
Infant (per thousand live births)	38	19	12	32	36
Under 5 (per thousand live births)	77	29	15	41	44
Adult (15-59)					
Male (per 1,000 population)	180	159	117	189	200
Female (per 1,000 population)	130	100	70	116	142
Maternal (per 100,000 live births)	..	26	..	..	..

1999 World Development Indicators CD-ROM, World Bank

ANNEX TABLE 2: COSTA RICA: KEY ECONOMIC INDICATORS, 1988 - 1997

Indicator	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	*Costa Rica Average 1988-1997*	*Guatemala Average 1988 - 1997*	*Ecuador Average 1988-1997*	*Dominican Republic Average 1988- 1997*	*Jamaica Average 1988- 1997*	*Paraguay Average 1988- 1997*	*Colombia Average 1988-1997*	*Peru Average 1988- 1997*	*Panama Average 1988-1997*	*Venezuela Average 1988-1997*
											Comparator Countries									
GDP growth (annual %)	2.8	5.6	7.5	2.2	9.1	6.2	6.5	1.1	0.2	3.0	*4.4*	4.0	3.6	3.8	1.6	3.6	4.0	1.7	3.0	2.6
GNP per capita growth (annual %)	-0.1	2.7	4.7	0.9	6.7	3.8	4.2	-1.0	-1.2	1.7	*2.2*	1.5	1.6	2.0	1.7	0.9	2.1	0.5	0.6	0.4
GNP per capita, Atlas method (current US$)	1700	1700	1790	1830	2050	2200	2440	2570	2620	2680	*2158*	1196	1232	1207	1520	1475	1512	1698	2614	2970
GNP per capita, PPP (current international $)	4460	4580	4850	5040	5610	5960	6330	6440	6430	6510	*5621*	3552	4147	3764	3061	3437	5599	3650	5752	7919
Population growth (annual %)	2.9	2.8	2.7	1.3	2.3	2.3	2.2	2.1	1.4	1.3	*2.1*	2.6	2.2	2.0	0.8	2.8	2.0	1.8	1.9	2.4
Agriculture, value added (% of GDP)	15.8	16.0	15.9	17.3	16.3	16.1	16.5	15.7	15.6	14.7	*16.0*	25.0	12.9	13.4	7.8	25.6	14.4	7.4	9.3	5.3
Manufacturing, value added (% of GDP)	21.3	20.4	19.4	19.9	20.5	19.3	18.6	19.1	18.4	17.2	*19.4*	14.3	21.2	17.4	18.4	16.4	19.4	23.8	10.0	18.6
Services, etc., value added (% of GDP)	60.3	60.3	60.5	56.4	57.1	58.2	58.5	59.4	60.3	62.0	*59.3*	55.2	50.1	55.5	51.8	51.8	51.9	56.6	72.7	51.4
Exports of goods and services (% of GDP)	35.1	35.2	34.6	38.3	37.8	38.6	39.7	42.7	45.5	45.8	*39.3*	18.1	29.7	39.2	55.9	24.3	17.2	11.7	92.1	30.3
Imports of goods and services (% of GDP)	37.0	39.1	41.4	39.3	43.0	45.7	42.9	42.8	46.4	47.6	*42.5*	24.1	27.7	46.2	63.2	28.3	16.7	14.2	85.9	23.6
International tourism, receipts (% of total exports)	10.2	11.3	14.0	15.1	16.7	19.9	18.9	17.4	16.9	16.8	*15.7*	11.2	5.6	37.5	34.6	16.2	6.2	6.1	4.0	3.4
Current account balance (% of GDP)	-3.9	-7.9	-7.4	-1.3	-5.5	-8.2	-2.8	-1.6	-1.1	-2.7	*-4.2*	-4.3	-4.1	-3.1	-4.2	-1.3	-1.8	-5.6	0.7	3.1
Resource balance (% of GDP)	-1.9	-3.9	-6.8	-0.9	-5.2	-7.1	-3.2	-0.1	-0.9	-1.8	*-3.2*	-6.0	2.0	-7.0	-7.3	-3.9	0.5	-2.5	6.2	6.7
Agriculture, value added (annual % growth)	4.6	7.4	2.5	6.3	4.0	2.4	3.0	4.0	-0.4	2.0	*3.6*	3.1	3.9	2.0	2.0	4.1	2.3	3.1	1.5	0.9
Manufacturing, value added (annual % growth)	2.2	3.4	2.6	2.1	10.3	6.5	3.5	3.6	-4.1	0.0	*3.0*	2.6	2.0	3.1	0.3	..	2.2	0.4	2.6	1.9
Services, etc., value added (annual % growth)	3.8	5.6	4.7	1.5	8.6	7.1	5.1	2.1	1.1	3.5	*4.3*	4.4	3.1	4.2	1.1	3.8	5.3	1.6	3.1	1.3
Exports of goods and services (annual % growth)	7.2	15.9	8.7	8.4	12.2	11.2	7.9	7.3	9.1	4.4	*9.2*	7.4	8.5	17.5	1.6	12.4	7.8	6.1	4.4	6.9
Aid (% of GNP)	4.6	5.0	4.4	3.2	2.2	1.5	1.0	0.4	-0.1	0.0	*2.2*	2.1	1.7	1.1	4.1	1.7	0.3	1.2	1.3	0.1
Aid (% of gross domestic investment)	17.3	17.3	15.3	12.0	7.3	4.7	3.7	1.8	-0.2	-0.1	*7.9*	14.5	7.8	4.4	12.8	7.4	1.4	5.7	6.3	0.5
Aid per capita (current US$)	67.7	80.5	78.0	55.3	45.1	32.8	24.6	11.4	-1.4	-0.6	*39.3*	24.4	19.5	12.3	60.8	24.2	4.2	19.2	31.7	2.1
World Bank Net Disbursements (US$ million)	-33.0	8.6	-40.2	-12.8	-18.6	-37.2	-45.6	-39.2	-31.9	-34.4	*-28.4*	-11.9	23.4	0.2	-25.5	-22.1	-210.5	87.6	-29.2	122.0
World Bank Net Disbursements per capita (current US$)	-11.4	2.9	-13.4	-4.1	-5.8	-11.6	-13.8	-11.5	-9.4	-9.8	*-8.8*	-1.3	2.3	0.1	-10.3	-5.1	-5.6	3.7	-11.8	6.3
Money and quasi money (M2) as % of GDP	36.8	38.2	38.0	37.7	36.9	37.3	36.3	32.9	36.1	39.4	*37.0*	22.3	21.3	21.4	41.9	21.8	18.5	14.1	49.1	24.0
Money and quasi money growth (annual %)	40.2	16.4	27.5	33.7	24.5	15.2	22.0	4.8	47.6	16.4	*24.8*	19.4	53.1	28.5	32.0	31.0	31.9	944.8	12.4	44.8
Inflation, consumer prices (annual %)	20.8	16.5	19.0	28.7	21.8	9.8	13.5	23.2	17.5	13.2	*18.4*	15.8	43.6	22.6	28.6	19.6	24.7	1213.4	1.0	52.9
Domestic credit prov. by banking sector (% of GDP)	34.1	30.3	29.9	25.0	23.7	24.9	23.9	20.8	33.0	37.4	*28.3*	17.8	31.1	28.6	33.5	23.6	38.0	13.7	61.6	33.4
Gross domestic savings (% of GDP)	22.6	22.6	20.5	24.2	24.0	22.7	23.2	23.4	22.0	25.0	*23.0*	8.8	21.9	17.7	24.0	18.3	20.4	18.7	26.7	24.4
Gross domestic investment (% of GDP)	24.5	26.5	27.3	25.2	29.2	29.8	26.4	23.5	22.9	26.8	*26.2*	14.8	19.9	24.7	31.3	22.3	19.8	21.2	20.5	17.8
Gross international reserves in months of imports	3.9	3.5	2.3	4.4	3.8	3.3	2.8	3.0	2.6	3.0	*3.3*	3.1	3.3	1.0	1.5	2.8	6.1	6.7	0.8	8.7
Private investment (% of GDFI)	78.2	77.9	78.9	78.5	80.1	78.9	75.5	77.0	75.9	80.0	*78.1*	81.0	80.1	70.4	..	82.5	58.3	81.7	84.2	42.7
Total debt service (% of exports goods and services)	24.3	17.7	23.9	18.1	20.1	18.3	14.6	16.5	13.9	11.8	*17.9*	15.8	29.3	9.9	24.1	11.2	37.6	23.1	6.3	24.0
Overall budget deficit, including grants (% of GDP)	0.0	-2.1	-3.1	-1.3	0.9	-0.2	-5.7	-2.9	-3.9	..	*-2.0*	..	1.1	0.2	..	1.3	0.2	-2.0	1.8	-1.4
Expenditure, total (% of GDP)	24.5	26.1	25.6	24.8	23.9	26.2	30.6	29.1	30.6	..	*26.8*	..	14.8	14.7	..	11.0	13.5	15.1	24.9	19.4
Current revenue, excluding grants (% of GDP)	25.1	24.4	23.0	23.5	24.8	25.9	24.9	26.2	26.7	..	*24.9*	..	15.8	14.7	..	12.3	13.8	12.5	25.6	19.9
Tax revenue (% of GDP)	21.5	20.9	19.7	20.3	21.7	22.5	22.0	22.5	23.5	..	*21.6*	..	15.2	13.3	..	9.1	12.0	11.3	17.1	15.4
Trade (% of GDP)	72.1	74.4	76.0	77.6	80.9	84.2	82.6	85.6	91.9	93.4	*81.9*	42.2	57.3	85.4	119.0	52.6	33.9	25.9	178.1	53.9
Foreign direct investment, net inflows (% of GDI)	10.8	7.3	10.5	12.6	11.5	11.0	13.5	18.7	20.7	2.2	*11.9*	7.5	10.2	9.9	10.7	7.4	11.6	9.0	7.6	10.9
Illiteracy rate, adult total (% of people 15+)	..	..	6.1	..	..	..	..	5.3	..	5.0	*5.5*	35.6	10.3	18.8	15.7	8.4	10.0	12.6	9.8	8.8
Immunization, DPT (% of child. under 12 months)	87.0	87.0	95.0	90.0	91.0	88.0	87.0	85.0	85.0	91.0	*88.6*	67.1	72.6	63.2	87.6	76.4	83.8	81.5	82.8	61.4
Life expectancy at birth, total (years)	..	..	75.4	..	75.7	..	..	..	..	76.5	*75.9*	62.7	69.0	69.9	73.8	68.8	69.5	67.0	73.1	71.9
Mortality rate, infant (per 1,000 live births)	..	..	14.8	..	14.0	..	13.0	..	..	12.0	*13.5*	50.1	39.4	46.3	13.6	27.1	27.5	48.8	24.1	22.7
Safe water (% of population with access)	94.0	..	..	..	..	..	..	100.0	..	..	*97.0*	62.8	59.0	62.0	82.1	36.0	84.3	60.7	83.5	78.7
Sanitation (% of population with access)	97.0	..	..	..	..	..	..	97.0	..	..	*97.0*	65.1	54.3	66.7	74.0	45.0	60.0	49.3	87.0	73.0
School enrollment, primary (% gross)	101	101	101	102	103	103	102	103	103	..	*101.9*	83.5	121.7	99.0	101.3	107.6	106.2	118.5	105.1	93.6
Population density (people per sq km)	56.5	58.1	59.7	60.5	61.9	63.3	64.7	66.1	67.0	..	*62.0*	85.3	38.8	152.9	226.1	11.3	35.0	17.5	33.5	23.1
Urban population (% of total)	46.2	46.7	47.1	47.5	48.0	48.4	48.9	49.3	49.8	50.3	*48.2*	38.5	57.0	60.1	52.6	50.5	71.3	69.9	54.7	84.9

Annex Table 3. ESW List (1988-1998)

Report title	Economic or Sector Report	Date	Report #
Multisector (3)			
Country Economic Memorandum	ER	12/6/88	7481
Policy options for the 90s	ER	3/27/90	8496
Sustaining development: country economic memorandum	ER	5/29/95	13995
Finance (1)			
Selected financial sector issues	SR	3/8/88	6821
Social Sector (2)			
Public sector social spending	SR	10/23/90	8519
Identifying the social needs of the poor: an update	SR	5/12/97	15449
Water & Santiation (1)			
Water supply and sanitation sector overview	SR	11/6/91	10070
Agriculture (2)			
Forestry sector review	SR	12/31/92	11516
Interdisciplinary fact-finding on current deforestation	SR	1/27/93	11587

Annex Table 4 - OED Summary Ratings for Costa Rica since 1988

OED OUTCOME RATINGS (*)				
	Number	*Percent*	*Value $m*	*Percent*
Satisfactory Outcome				
Adjustment Loans	2	100%	180.0	100%
Non-Adjustment Loans	1	100%	20.6	100%
Total Satisfactory Outcome	3	100%	100.0	100%
Region	282	67%	31702.0	68%
Bank-wide or IDA	1475	66%	113411.9	69%
OED SUSTAINABILITY RATINGS				
	Number	*Percent*	*Value $m*	*Percent*
Likely Sustainability				
Adjustment Loans	0	0%	0.0	0%
Non-Adjustment Loans	1	100%	20.6	100%
Total Likely Sustainability	1	100%	20.6	100%
Region	209	50%	27202.0	59%
Bank-wide or IDA	1015	45%	88451.0	54%
OED INSTITUTIONAL DEVELOPMENT RATINGS				
	Number	*Percent*	*Value $m*	*Percent*
Substantial ID				
Adjustment Loans	0	0%	0.0	0%
Non-Adjustment Loans	0	0%	0.0	0%
Total Substantial ID	0	0%	0.0	0%
Region	143	34%	17504.0	38%
Bank-wide or IDA	696	31%	56424.3	34%
ARPP RATINGS OF ONGOING PROJECTS				
	Number	*Percent*	*Value $m*	*Percent*
Development Objectives				
Satisfactory	4	100%	109.0	100%
Unsatisfactory	0	0%	0.0	0%
TOTAL	4	100%	109.0	100%
Implementation Progress				
Satisfactory	4	100%	109.0	100%
Unsatisfactory	0	0%	0.0	0%
TOTAL	4	100%	109.0	100%
Region (% not at risk)	297	91%	25274.6	88%
Bank-wide or IDA (% not at risk)	1376	86%	100272.8	79%
DISCONNECT FOR COSTA RICA				
Number of projects since FY80	*ARPP % Sat*	*OED % Sat*	*Net disc. at exit**	
17	100%	88%	12	
DEVELOPMENT EFFECTIVENESS INDICATOR				
	Since 1988			
Country	6.62			
Region	6.66			
Bank-wide or IDA	6.38			

(*) Based on projects evaluated by OED through October 6, 1997. The disconnect is the difference between the share of projects rated satisfactory during the last supervision year and the share of projects rated satisfactory after completion. Thus it is an indication of the optimism in supervision ratings.

ANNEX TABLE 5a - OED EVALUATION PORTFOLIO

Years in FY	**1970-1987**			
OED OUTCOME RATINGS				
Projects Closed and Rated OED, Number=20, Amount $m=40	*Number*	*Percent*	*Value $m*	*Percent*
Total Satisfactory Outcome - Costa Rica	18	90%	366.5	90%
Region	383	74%	11694.2	65%
Bank-wide or IDA	1824	76%	52614.1	75%
Years in FY	**1988-1999**			
OED OUTCOME RATINGS				
Projects Closed and Rated OED, Number=4, Amount $m=132	*Number*	*Percent*	*Value $m*	*Percent*
Total Satisfactory Outcome - Costa Rica (*)	3	75%	106.4	80%
Region	305	67%	31186.2	73%
Bank-wide or IDA	1606	66%	110715.5	73%
Years in FY	**1970-1999**			
OED OUTCOME RATINGS				
Projects Closed and Rated OED, Number=24, Amount $m=54	*Number*	*Percent*	*Value $m*	*Percent*
Total Satisfactory Outcome - Costa Rica	21	88%	473.0	87%
Region	688	70%	42880.0	70%
Bank-wide or IDA	3430	71%	163329.0	74%

ANNEX TABLE 5b - *WORLD BANK PROJECT RATINGS SORTED BY SECTOR, Evaluated between FY94-FY99*

PROJECT DESCRIPTION						OED RATINGS						QAG	SUPERVISION	
Project ID	*Project Name*	*Net Comm. (US$M)*	*Approval date*	*ARPP exit FY*	*Eval FY*	*Outcome*	*Sust*	*ID Impact*	*Dev. Effectiveness*	*Bank Performance*	*Borrower Performance*	*At Risk Rating*	*Latest DO Ratings*	*Latest IP Ratings*
Agriculture														
6943	Agricultural sector investment and institutional devel.	0.0	19-Mar-92	1994	1994	NAVL		NAVL						
6924	Atlantico Agricultural Dev.	20.6	21-Oct-86	1997	1997	S	LIK	MOD						
	Subtotal:	*20.6*												
Multisector														
6923	First structural adjustment loan	80.0	21-Oct-86	1986	1994	S	UNC	MOD						
6927	Second structural adjustment loan	100.0	13-Dec-88	1992	1994	S	UNC	MOD						
6952	SAL 3	0.0	15-Apr-93	1995	1997	NAVL	NAPL	NAPL						
	Subtotal:	*180.0*												
Water Supply & Sanitation														
6941	Water Supply	16.0	17-Jun-93									Non Risk	S	S
	Subtotal:	*16.0*												
Education														
6938	Basic Education	23.0	12-Nov-91									Non Risk	S	S
	Subtotal:	*23.0*												
Health														
6954	Health Sector Reform	22.0	21-Oct-93									Non Risk	S	S
	Subtotal:	*22.0*												
Transport														
6926	Transport Sector Investment	48.0	24-May-90									Non Risk	S	S
	Subtotal:	*48.0*												
	GRAND TOTAL:	**309.6**												

ANNEX TABLE 6 - PBD INFORMATION - 1988-1998

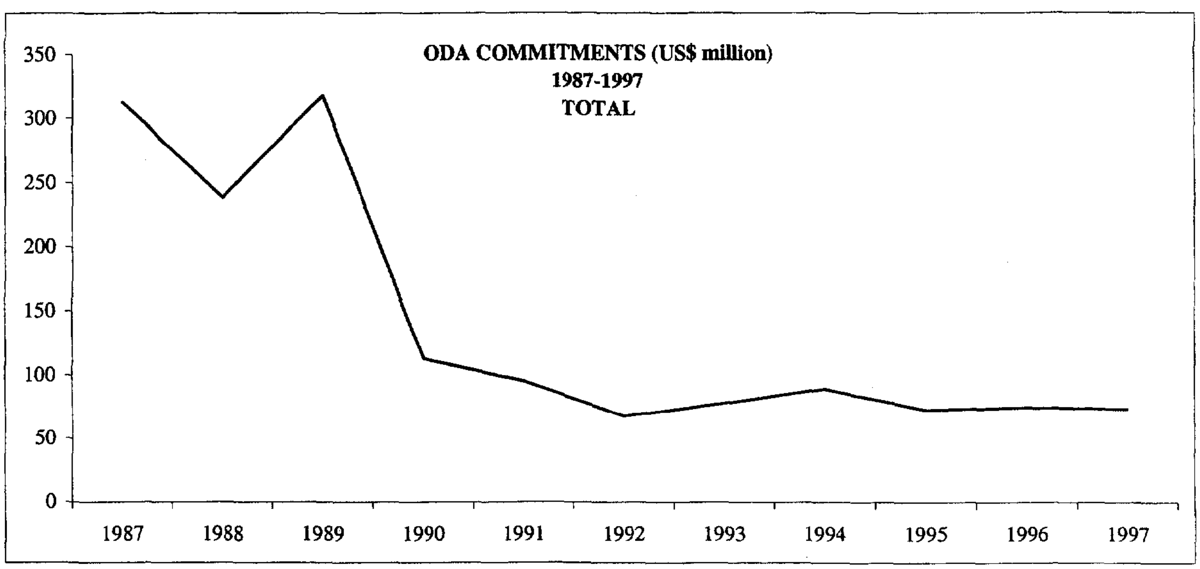
Country	Average completion Cost (SWs per project)	Average completion cost per project ($)	Supervision Intensity: Direct cost inputs divided by the no. of projects under active supervision ($)	Supervision intensity: SW inputs divided by no. of projects under active supervision (SWs)	Average cost per dropped project ($)	Cost per scheduled ESW report ($)	Cost per unscheduled ESW report ($)
Costa Rica	*77*	*178,915*	*44,182*	*15*	*11,706*	*53,616*	*5,145*
Guatemala	66	166,453	40,902	12	19,894	85,485	1,354
Ecuador	126	327,554	44,398	18	25,137	113,222	34,450
Dominican Rep	61	144,256	33,984	12	43,183	80,096	24,408
Jamaica	67	160,043	34,725	11	52,945	78,656	23,282
Paraguay	75	199,483	45,341	13	32,122	94,438	18,439
Colombia	117	281,939	39,534	13	49,262	107,718	31,962
Peru	66	190,426	61,183	12	16,026	80,988	52,838
Panama	62	158,133	41,047	13	18,732	14,014	9,847
Venezuela	76	196,620	44,020	17	33,700	70,900	22,575
LAC Region	***107***	***266,561***	***42,313***	***14***	***49,587***	***120,034***	***50,880***
Bank-wide	***118***	***317,900***	***48,000***	***15***	***76,500***	***160,900***	***61,000***

Annex Table 7 - Bilateral ODA Commitments

Data in US$ million

Year / **Donor**	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*TOTAL*
AUSTRALIA	..	..	..	..	..	..	..	..	..	..	..	..
AUSTRIA	..	..	..	..	..	0.1	3.9	..	0.1	..	1.2	*5.2*
BELGIUM	..	..	..	..	..	..	..	0.5	1.4	0.1	0.4	*2.4*
CANADA	15.1	9.4	6.4	11.1	2.6	3.3	3.4	13.7	2.1	3.2	10.8	*81.2*
DENMARK	..	..	3.4	0.1	2.2	1.3	1.4	0.2	0.2	..	4.4	*13.1*
FINLAND	..	7.2	0.0	0.2	..	0.1	..	0.5	..	..	0.0	*7.9*
FRANCE	..	0.1	0.1	..	..	..	..	2.4	..	2.2	1.9	*6.6*
GERMANY	0.5	0.6	0.0	28.5	9.6	28.5	8.9	21.9	11.5	7.6	0.0	*117.6*
IRELAND	..	..	..	..	..	..	..	..	..	..	..	..
ITALY	..	3.4	2.3	1.8	7.9	..	0.7	0.6	0.6	..	..	*17.2*
JAPAN	0.6	0.7	91.3	0.2	10.9	0.7	23.4	9.6	12.0	10.7	8.2	*168.3*
LUXEMBOURG	..	..	..	..	..	..	..	..	..	..	..	..
NETHERLANDS	2.6	11.5	10.1	13.2	11.9	10.2	8.8	21.3	26.6	30.2	14.7	*161.1*
NEW ZEALAND	..	..	..	..	..	..	..	..	..	..	..	..
NORWAY	..	..	0.2	..	..	0.4	0.5	0.8	1.4	0.6	1.6	*5.4*
PORTUGAL	..	..	..	..	..	..	..	..	..	..	..	..
SPAIN	..	3.0	2.8	15.3	..	..	0.7	0.4	1.0	1.9	26.8	*52.0*
SWEDEN	..	0.7	1.7	..	..	..	..	..	2.6	..	..	*5.1*
SWITZERLAND	..	0.5	..	..	0.1	1.5	0.1	0.3	2.1	2.5	..	*7.0*
UNITED KINGDOM	..	1.0	5.6	5.8	2.1	4.9	5.3	13.9	7.5	15.4	3.6	*65.0*
UNITED STATES	294.3	200.4	194.3	36.8	48.2	16.9	21.0	3.2	3.6	..	..	*818.7*
TOTAL, DAC DONORS	313.1	238.4	318.3	112.9	95.5	67.8	78.0	89.4	72.7	74.6	73.5	*1534.1*

***Note:** The sectoral distribution of bilateral ODA commitments refers to the economic sector of destination (i.e. the specific area of the recipient's economic or social structure whose development is, or is intended to be fostered by the aid), rather than to the type of goods or services provided.*



Source: OECD Database - Geographical Distribution of Financial Flows.

ANNEX TABLE 8 - BANK MANAGEMENT FOR COSTA RICA: 1990 - 1999				
Year	*Vice President*	*Country Director*	*Country Operations Division Chief*	*Resident Representative*
1990	S. Shahid Husain	Rainer B. Steckhan	Miguel E. Martinez	n.a.
1991	S. Shahid Husain	Rainer B. Steckhan	Marko Voljc	n.a.
1992	S. Shahid Husain	Rainer B. Steckhan	Marko Voljc	n.a.
1993	S. Shahid Husain	Edilberto L. Segura	Robert M. Lacey	n.a.
1994	Shahid Javed Burki	Edilberto L. Segura	Robert M. Lacey	n.a.
1995	Shahid Javed Burki	Edilberto L. Segura	Donna Dowsett-Coirolo	Shahla Torabi*
1996	Shahid Javed Burki	Donna Dowsett-Coirolo	n.a.	Shahla Torabi*
1997	Shahid Javed Burki	Donna Dowsett-Coirolo	n.a.	Shahla Torabi*
1998	Shahid Javed Burki	Donna Dowsett-Coirolo	n.a.	Shahla Torabi*
1999	Shahid Javed Burki	Donna Dowsett-Coirolo	n.a.	n.a.

* Regional Implementation Mission

Annex Table 9: Costa Rica—Grants Summary (as of June 30, 1999)

Grant Number	*Purpose*	*Grant Agreement FY*	*Net Grant Amount (US$000)a*
	Policy and Human Resources Development (PHRD Grants)		
TF022830	Regional project investment management facility	FY88	897
TF021398	Health and nutrition project	FY92	1,215
TF022706	Conservation area management	FY95	519
TF029195	Transport & air quality management	FY96	594
TF029363	Public sector modernization project	FY96	568
TF025485	Ecomarkets (forest conservation)	FY98	500
TF027067	Pension system reform program	FY98	750
TF025311	Pension system & financial sector reform program	FY99	750
TF025607	Education development project	Pending	530
	Institutional Development Funds (IDF Grants)		
TF028860	Strengthen of regional capacity for agriculture policy formulation	FY95	457
TF028803	Institutional environmental plan	FY94	359
TF028542	Introduce a gender perspective in agriculture and natural resources sectors	FY96	389
TF027585	Accounting, monitoring and verification mechanisms for environmental benefits	FY98	500
TF021243	Privatization technical assistance	FY99	496
	Global Environment Facility (GEF Grants)		
TF028453	Biodiversity resource development Project	FY96	241
TF033095	Rural electrification	FY96	37
TF034994	Water supply and sanitation	FY97	14
TF028324	Biodiversity resources development project	FY98	6,959
TF022382	Ecomarkets project	FY00	330
TF028655	Wind electric power development	Pending	3,300
TOTAL			**19,405**

a Net of Exchange Rate Adjustment

Annex Table 10: IFC Activity FY91-99

Fiscal Year	*Project*	*Sector*
1991	Banex	Financial
1992	Millicom	Infrastructure – Telecomm.
1993	Hotel Camino	Tourism
	Interfin	Financial
1994	Hidrozarcas	Infrastructure - Power
1996	Ticofrut	Agribusiness
1998	Ticofrut II	Agribusiness
	CIMA Costa Rica	Healthcare
1999	Superunidos	Retail

Annex Table 11: IFC Trust Fund Activity FY91-99

Fiscal Year	*Project*	*Sector*
1991	Engineering support for hydro electric plant	Infrastructure - Power
1994	Banana Starch Extraction	Agribusiness

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Report from CODE

Committee on Development Effectiveness

Informal Subcommittee's Report on Costa Rica Country Assistance Evaluation

1. The Informal Subcommittee (SC) of CODE met on October 23, 2000 to discuss the *Costa Rica Country Assistance Evaluation (CAE)* (CODE2000-65). The SC welcomed the CAE noting that Costa Rica was an interesting case for the Bank and thanked OED for an informative report.

2. OED opened the discussion by noting that Costa Rica is a stable presidential democracy with economic and social indicators better than those in many other lower-middle income Latin American countries. Historically, however, the pace of reform had been slow and driven by a highly democratic process of achieving consensus. The CAE noted that the Bank's presence in Costa Rica had been minimal in the past seven years. The Bank's last CAS was in 1993 and no new lending took place from 1993 to June 1999. Much of the planned economic and sector work was not delivered. The CAE urged that an update or a new CAS be presented to the Board as soon as possible. The CAE also emphasized the need for the Bank to make a greater effort at supporting the Costa Rican authorities in continuing to advance social development and economic growth, noting that Costa Rica has an excellent record in poverty reduction and has pursued policies similar to those espoused by the Bank, albeit at a slower pace than Bank management would have preferred.

3. Management stressed that Costa Rica is a sophisticated client with strong institutions and democratic processes and thus, does not require the standard type of World Bank assistance. Further, Management remarked that they disagreed with the central premise of the CAE which suggested that slow progress in the dialogue between Costa Rica and the Bank had been due to difficulties with the SAL III operation. While acknowledging that dialogue on the SAL III had been challenging, Management noted that other donors and MDBs had also had stalled programs in this time period. Management further noted that they supported the recommendations of the CAE but that they were too generic in nature.

4. The SC welcomed the frank exchange between Management and OED. The SC further noted that Costa Rica was an interesting case for the Bank due to its strong social indicators, stable political history and constitutional traditions. Among the specific issues raised by the SC were:

5. **Speed versus Ownership.** Many members noted that there was a tension between speed and ownership in the case of Costa Rica. While the Government moved slower on the reforms than the Bank would have liked, this also increased country ownership and led to good development outcomes. This raised questions about the Bank's role, engagement and lessons learned by the Bank in countries that did not follow the traditional path prescribed by the Bank. Members stressed that the Costa Rican case should provide a lesson learned for the Bank and the Bank should be able to adjust as appropriate to the pace of reform chosen by client countries. This was also fitting with the country focus of the CDF-PRSP exercises. Others noted that while

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country ownership was critically important, it was often pressure from the Bank that urged countries to reform.

6. **Conditionality.** Members discussed the use of conditionality, particularly noting that conditions that required Parliamentary approval prior to loan effectiveness could be viewed as interference by the Bank in a country's political affairs. Country ownership was also discussed in this regard and it was noted that there was often a lack of ownership when conditionalities had to be met through an action by Parliament. In this context, members noted that approving single tranche loans on the basis of conditions that had already been met seemed to be more effective. Management agreed that such an approach was most effective but noted that the authorities did not always agree as Parliamentary approval would still be required for the loan itself.

7. **CAS update.** Many members stressed that a CAS update to the Board was the minimum requirement given the long time lag since the 1993 CAS. Members also noted that it was important that Bank management inform the Board when an endorsed strategy required important changes during implementation. Management agreed that a CAS update was overdue and noted that they were in the process of preparing a new CAS.

8. **Donor Coordination.** Members asked about the difficulties faced by other donors in the recent past as well as their future plans. In this regard, the Subcommittee stressed the importance of donor coordination and wondered about the comparative advantage of the Bank vis-à-vis other partners.

Lewis Holden, Acting Chairman
CODE Subcommittee

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