

ESS Extension of Social Security

Anti-poverty programmes in Costa Rica: The Non-Contributory Pension Scheme

Fabio Durán-Valverde

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Acronyms

BANHVI	Banco Hipotecario de la Vivienda [Housing Mortgage Bank]
CCSS	Caja Costarricense de Seguro Social [Social Insurance Fund of Costa Rica]
CEN-CINAI	Centro de Nutrición y Atención Integral [Comprehensive Care and Nutrition Centre]
CNP	Consejo Nacional de Producción [National Production Council]
DESAF	Dirección General de Desarrollo Social y Asignaciones Familiares [General Directorate of Social Development and Family Allowances]
FODESAF	Fondo de desarrollo Social y Asignaciones Familiares [Social Development and Family Allowances Fund]
FONABE	Fondo Nacional de Becas [National Scholarship Fund]
FONASOL	Fondo de Desarrollo Humano y Asignaciones Familiares [Human Development and Family Allowances Fund]
GDP	Gross Domestic Product
ICAA	Instituto Costarricense de Acueductos y Alcantarillados [Costa Rican Institute of Aqueducts and Sewers]
IDA	Instituto de Desarrollo Agrario [Agricultural Development Institute]
IMAS	Instituto Mixto de Ayuda Social [Joint Institute of Social Assistance]
IVM	Régimen de Invalidez, Vejez y Muerte [Invalidity, Old-age and Survivors' Insurance Scheme]
JPSSJ	Junta de Protección Social de San José [Social Protection Council of San José]
MEP	Ministerio de Educación Pública [Public Education Ministry]
PANI	Patronato Nacional de la Infancia [National Children's Association]
PCP	Pensión por Parálisis Cerebral Profunda [Severe Cerebral Paralysis Pension]
NCP	Régimen No Contributivo de Pensiones de Monto Básico [Non-Contributory Scheme for Basic Pensions]
SIPO	Sistema de Información de Población Objetivo [Target Population Information System]
SNP	Sistema Nacional de Pensiones [National Pension System]

Summary

This study provides an overview of the main problems facing the Costa Rican Government's poverty reduction programmes, with particular emphasis on the management of resources. In particular, it provides a detailed analysis of a specific programme, the Non-Contributory Scheme for Basic Pensions—also known as the Non-Contributory Pension Scheme—the NCP Scheme, the Programme) which is administered by the Social Insurance Fund of Costa Rica (CCSS).

The main problems facing the NCP Scheme fall into two categories: financing, and management. The granting of pensions to persons who do not require assistance, since they do not qualify as “poor”, together with the failure on the part of the respective authorities to make timely and complete transfers of resources, which by law belong to the Scheme, limit the real prospects of the programme for broadening its effective coverage and increasing the amount of the pensions it grants.

In spite of this, some estimates presented in the study indicate that 15 per cent of all NCP beneficiaries are able to reduce their level of poverty thanks to the pension they receive. Likewise, 62 out of every 100 colones spent on these pensions have a positive effect in terms of narrowing the poverty gap for the beneficiary and his or her family. On the other hand, almost 45% of the country's elderly poor does not receive any pension at all.

The basic recommendations proposed revolve around three core aspects: strengthening the scheme's finances, improving beneficiary selection processes, and lastly, possibly modifying the manner in which pensions are calculated so as to provide proportionally greater amounts to persons living the furthest below the poverty line.

1. Introduction

Public spending on social programmes has constituted an important mechanism for redistributing wealth in Costa Rica, as well as a means of increasing opportunities for the social integration and advancement of all residents. Independently of geographic distribution or income bracket, there is a direct correlation between the level of social expenditure and the improvement, in the medium or long term, of residents' living conditions (Trejos and Sauma, 1999).

The foundation of the social policy financed with these resources has been universal programmes—principally those linked to investments in education, health, nutrition and housing. The results of this strategy are well known: the country has, for quite some time, presented social development indicators comparable to those of many high-income nations.

The battle against poverty—defined as a group of actions developed explicitly for that purpose—began in the 1970s with the creation in 1971 of the Joint Institute of Social Assistance (IMAS) [*Instituto Mixto de Ayuda Social*] as the institution responsible for directly addressing poverty issues, and later, with the inauguration of the Social Development and Family Allowances Fund (FODESAF) [*Fondo de Desarrollo Social y Asignaciones Familiares*] in 1974. It had become obvious at that point that certain segments of the population were not effectively benefiting from the economic growth of the times.

Along with the decline of the import substitution model, the crisis of principles in the 1980s and the subsequent stabilization and structural adjustment programmes, poverty grew to worrisome levels. Efforts to alleviate or reduce poverty thus became a policy priority.

The strategy evolved from one focusing on development and social advancement to one of social compensation. In reality, this change was inevitable, given the impact of the crisis on certain sectors, as well as the reduction in the real coverage and quality of the universal services. This was due, among other factors, to the cut back in the financial resources needed for their provision, as well as to institutional rigidities and a lack of follow-up and control mechanisms (Picado, 1999).

At the beginning of the 1990s, the implementation of a development model based on exports of non-traditional products was pursued. Structural adjustment reforms were applied more intensely, with special emphasis on reducing the size and scope of action of the State. An excessive preoccupation with reducing fiscal imbalance led to sizeable reductions in funds earmarked for traditional social programmes, intensifying the use of assistance measures as an anti-poverty mechanism (Trejos et al., 1995).

In the years that followed, targeted social expenditure lost momentum and the strategy returned to one of promoting and improving the universal programmes. The process of reforming the health sector stands out in this regard. It sought to increase the efficiency and impact of the resources invested in this sector by intensifying health promotion and prevention actions, as well as through the social security administration's policy to make primary health care available to the entire population, the decentralization of the health-care centers' management and a greater openness to the participation of private health-care providers.

The educational system has also been the target of reforms, although these have been much less visible than those in the health sector. The efforts are intended in the future to reduce the number of school dropouts, the number of years of study required for the completion of secondary schooling and the difference in quality between public and private education.

Nevertheless, beyond the level of resources or the strategies promoted by the Government, the true potential of a country for effectively battling poverty depends upon the performance of its economy, particularly in terms of its capacity to generate employment and increase family income.

With the start-up of operations of the world's leading enterprise for the manufacture of microprocessors and electronic circuits, Intel, in mid-1998, the outlook of the Costa Rican economy changed substantially (see Table 1). Exports of this company's products were such that in the two-year period 1998-1999, the GDP grew by an average annual rate of 8.4 per cent—one of the highest in the recent economic history of the country. Conversely, the 30 per cent drop in its foreign sales in 2000 owing to a modification of the production line in one of its plants, reduced the expansion in GDP to a mere 1.7 per cent.

Table 1: Costa Rica: Main economic and social indicators 1998-2000

Indicators	1998	1999	2000
Economic (in percentages)			
Real GDP per capita	5.3	5.2	-1.1
Real disposable income per capita	5.4	-3.7	-2.0
Inflation	12.4	10.1	10.2
Social			
Infant mortality rate (per 1000 live births)	12.6	11.8	10.2
Life expectancy at birth (years)	76.7	76.9	77.4
Position in Human Development Index	34.0	45.0	48.0
Open unemployment rate (percentage)	5.6	6.0	5.2
Poor households (percentage)	19.7	20.6	21.1

Source: Prepared by author based on the *VII Informe del Estado de la Nación* [VII State of the Nation Report].

The lack of solid productive links between the activities developed by Intel and other enterprises operating under the export-processing zone policy, on the one hand, and locally based producers or those whose products are destined primarily for the domestic market, on the other, has permitted the coexistence of high growth rates in the GDP (as in 1999) with a decline in per capita disposable income and weak or negligible growth in employment. This situation also reflects the economic stagnancy that has affected domestic business for the last several years and the high level of revenue these subsidiaries transfer back to their home offices.

The unemployment rate has remained relatively low, due more to a decline in the growth rate of the labour force than to the creation of new jobs in any significant numbers. The number of employed persons rose from 1,300,005 in 1998 to 1,318,625 in 2000. According to data supplied by the Household Survey, real family income declined by 0.7 per

cent—a variation consistent with the 2.3 per cent drop registered in national disposable income per person. Minimum wages also decreased, which adversely affected family incomes—especially those of the poorest families.

Consequently, the percentage of poor households in the nation rose from 20.6 per cent in 1999 to 21.1 per cent in 2000¹. However, the percentage of households classified as extremely poor or indigent—that is, whose per capita income is not sufficient to meet the basic nutritional needs of their members—declined from 6.7 per cent to 6.4 per cent. Poverty continues to be a phenomenon that is highly concentrated among the rural population; in the year 2000, there were 1.6 poor rural households for every poor urban household.

The medium-term outlook for poverty in Costa Rica is that it will remain virtually unchanged, having remained close to 20 per cent since 1994. Trejos (2001) considers the following as possible explanations for this phenomenon: i) inadequate economic growth or growth that is exclusive in nature; ii) a reduction in human capital owing to problems concerning access to post-crisis secondary schools and to the influx of immigrants with lower levels of education; iii) the decline in income of the lowest-skilled workers as a result of the supply of immigrant labour; and iv) the effect of a change in the methodology used to measure poverty.

To a certain extent, this resistance of poverty levels to decline, in some ways poses a direct challenge to the actions and programmes currently being developed to benefit resource-poor segments of the population. However, it also provides an excellent opportunity to redefine certain concepts and practices of utmost importance in the battle against poverty.

The primary objective of this study is, in fact, to provide a diagnosis of the main problems facing Costa Rican anti-poverty assistance programmes, in particular from the standpoint of the management of resources. More concretely, the study will develop a detailed analysis of a specific programme—the Non-Contributory Scheme for Basic Pensions (NCP), which is administered by the Social Insurance Fund of Costa Rica (CCSS)—consisting of a description of the programme’s benefits and coverage, as well as its impact on reducing poverty.

The study is divided into five sections, including this introduction. Section two contains a brief analysis of the trend of public social spending in Costa Rica during the 1990s. Section three provides a description of the main institutions and programmes involved in developing actions aimed at the poor, including a diagnosis of the factors that undermine the effectiveness of these institutions and programmes. Section four takes a look at the NCP Scheme, in terms of benefits, eligibility requirements, coverage, financial status, allocation of resources and impact on poverty reduction. Lastly, section five provides some policy recommendations for increasing the impact of the NCP Scheme. I would like to express my appreciation for the assistance of Gustavo Picado, whose analysis and comments were of great usefulness in preparing this report.

¹ These poverty estimates are based on the Poverty Line Method or the Income Method. In 2000, urban households were classified as follows: i) non-poor: monthly per capita income greater than ₡24,276 (US \$79); ii) unsatisfied basic needs: monthly per capita income less than ₡24,276 but greater than ₡11,136 (US \$36); and iii) extremely poor: per capita income less than ₡11,136. The reference incomes used to classify rural households are lower.

2. Trends in public social spending during the 1990s

Despite the tenuous nature of the country's public finances during decade, public social spending grew during this period at a relatively high rate (6.8 per cent). In 1999, it represented 14.2 per cent of the Gross Domestic Product (GDP), as compared to 13 per cent in 1990. Likewise, social spending increased its relative share of total public spending.

The growth in social spending occurred over two markedly different periods. From 1990 to 1995, during the Calderón Fournier Administration, social expenditure increased at a moderate rate (4.7%), owing to the severe adjustment measures applied to fiscal accounts and to the impact of policies aimed at reducing the size of the State. From 1996 to 1999, the overall growth rate doubled (9.8 per cent), and better performance was registered in nearly all categories.

Costa Rican public spending grew significantly over the course of the decade. Between 1990 and 1999, total government spending increased by nearly 70 per cent in real terms, as illustrated by Table 2. Under the heading of total spending, the expense categories that experienced high growth were basic education, social security pensions and economic services, all of which more than doubled their spending in real terms over the course of that period. Worth noting is the significant increase in social assistance spending (under the heading of social security, but excluding health), which nearly doubled during the 1990s. Expenditures increased by some 80 per cent for social services, as a whole, over the course of the decade.

The categories showing a slower rate of growth, in order of magnitude, were higher education and parauniversity education, vocational training, health and housing. As a percentage of total public spending, the relative share of social services expenditures grew from 58.6 per cent in 1990 to 62.6 per cent in 1999, although with fluctuations in the intervening years.

As may be observed in the Figure 1, whereas the relative share of spending on health, as a percentage of total public spending, tended to decrease, expenditures for pensions and education grew significantly, especially beginning in 1995.

Table 2: Costa Rica. Total public spending (in millions of 1999 colones)

Economic category	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total spending	595,251	585,489	599,900	665,380	836,344	792,828	834,973	847,361	888,502	1,006,847
General services	124,405	113,146	107,547	120,486	188,844	138,669	132,261	90,765	96,211	100,522
General services	87,385	80,028	74,318	80,323	142,657	93,877	84,094	41,057	41,209	38,679
Public safety	37,020	33,118	33,229	40,162	46,188	44,792	48,167	49,708	55,002	61,843
Social services	348,945	335,344	353,763	401,955	456,089	439,333	476,515	530,855	576,658	629,997
Education	97,901	92,849	104,196	120,014	131,687	118,505	135,920	147,028	166,640	173,302
General	57,896	54,542	61,878	75,631	84,432	72,207	88,507	97,074	115,182	122,722
Parauniversity	1,067	867	1,017	1,238	1,502	1,473	1,104	1,473	1,690	1,655
Vocational training	6,997	5,792	7,385	7,726	7,497	8,862	10,135	10,859	10,794	11,367
Higher education	31,941	31,649	33,916	35,419	38,257	35,962	36,174	37,622	38,973	37,557
Health	129,523	129,547	127,632	143,388	159,499	157,230	164,536	166,036	181,012	204,565
Social Security	92,252	90,946	99,329	110,672	135,191	136,650	145,423	183,260	193,905	208,872
Pensions	68,452	67,092	69,032	76,098	97,076	112,015	114,227	140,771	151,075	162,197
Assistance	23,800	23,855	30,298	34,574	38,115	24,635	31,196	42,489	42,830	46,675
Housing	24,503	17,957	18,759	21,832	22,919	22,370	25,098	28,081	28,639	37,676
Other social services	4,767	4,044	3,847	6,049	6,793	4,579	5,538	6,451	6,461	5,582
Economic services	49,094	46,061	53,933	61,625	79,497	62,499	61,753	80,141	87,798	110,998
Energy	2,899	3,022	2,868	3,869	4,425	3,637	3,450	13	6	20
Agriculture	15,762	17,478	19,444	22,778	30,478	19,711	12,566	20,976	18,356	21,802
Mineral resources	0	0	0	0	0	0	0	0	0	0
Transportation	26,899	21,915	27,281	30,523	39,876	34,687	41,094	30,662	32,705	46,035
Economic services	3,533	3,645	4,341	4,456	4,717	4,464	4,643	28,489	36,731	43,141
Miscellaneous	72,807	90,937	84,657	81,314	111,914	152,326	164,443	145,600	127,835	165,330

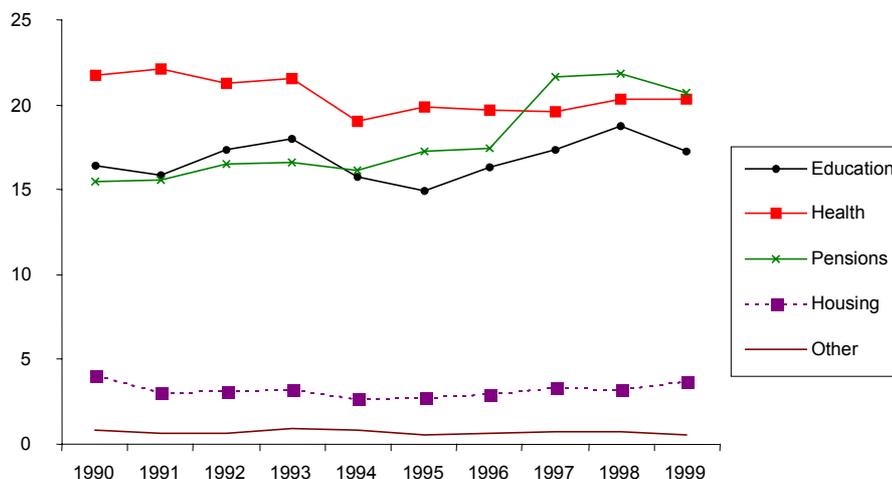
¹Data for the period 1987-1990 correspond to the series of National Accounts, whose results are still preliminary.
Source: Prepared by Juan Diego Trejos, on the basis of data from the Ministry of Finance.

Table 3: Costa Rica: Public social spending as a percentage of GDP, 1990-1999

Economic category	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<i>Total</i>	<i>13.0</i>	<i>12.6</i>	<i>12.3</i>	<i>13.0</i>	<i>13.8</i>	<i>12.9</i>	<i>14.1</i>	<i>14.6</i>	<i>14.7</i>	<i>14.5</i>
Education	3.6	3.5	3.6	3.9	4.0	3.5	4.0	4.0	4.2	4.0
Health	4.8	4.9	4.5	4.6	4.8	4.6	4.9	4.6	4.6	4.7
Social security	3.4	3.4	3.5	3.6	4.1	4.0	4.3	5.0	4.9	4.8
Housing	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.8	0.7	0.9
Other social services	0.2	0.2	0.1	0.2	0.2	0.1	0.2	0.2	0.2	0.1

Source: Based on data supplied by Juan Diego Trejos.

Figure 1: Costa Rica: Relative share of social expenditure components (%)



Measured in relative terms with respect to GDP, total government expenditure remained stable during the 1990s. However, social expenditure evolved from a share of 13 per cent of GDP in 1990 to 14.5 per cent in 1999 (see table 3), owing particularly to growth in the second half of the decade, primarily as a result of increases in real spending on education and pensions.

Over the decade the internal structure of government social spending varied considerably, especially in terms of the decreasing relative share of spending on health, housing and other social services. These categories lost ground to pension spending in particular, whose share of the social budget increased from 19.6 per cent to 25.7 per cent. Judging from the analyses provided in the pensions section (Chapter 4), this tendency will most likely prevail in the future (see Table 4).

It is noteworthy that the share of total social spending accounted for by social assistance has remained stable, though it has demonstrated strong fluctuations that are closely related to electoral cycles. This category accounts for the major portion of spending by the largest programmes aimed at the country's poor, but not all. Thus, the fact that it represents 1.1 per cent of GDP must be understood as merely an estimate of the level of resources devoted to such purposes.

Table 4: Structure of social spending, according to component, 1990-99 (in percentages)

Component	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
<i>Total</i>	<i>100.0</i>									
Education	28.1	27.7	29.5	29.9	28.9	27.0	28.5	27.7	28.9	27.5
General	16.6	16.3	17.5	18.8	18.5	16.4	18.6	18.3	20.0	19.5
Parauniversity	0.3	0.3	0.3	0.3	0.3	0.3	0.2	0.3	0.3	0.3
Vocational training	2.0	1.7	2.1	1.9	1.6	2.0	2.1	2.0	1.9	1.8
Higher education	9.2	9.4	9.6	8.8	8.4	8.2	7.6	7.1	6.8	6.0
Health	37.1	38.6	36.1	35.7	35.0	35.8	34.5	31.3	31.4	32.5
Social security	26.4	27.1	28.1	27.5	29.6	31.1	30.5	34.5	33.6	33.2
Pensions	19.6	20.0	19.5	18.9	21.3	25.5	24.0	26.5	26.2	25.7
Assistance	6.8	7.1	8.6	8.6	8.4	5.6	6.5	8.0	7.4	7.4
Housing	7.0	5.4	5.3	5.4	5.0	5.1	5.3	5.3	5.0	6.0
Other social services	1.4	1.2	1.1	1.5	1.5	1.0	1.2	1.2	1.1	0.9

Source: Based on data supplied by Juan Diego Trejos.

A simple example confirming the relationship between increases in social assistance spending and electoral cycles is provided by the fact that the greatest annual amount of housing bonuses granted in the last two administrations were awarded in 1993 (16,845 bonuses) and 1997 (20,287 bonuses)—both before presidential elections. Another factor reaffirming this association is the fact that the variation rate of this component of social spending demonstrates an above-average increase over that registered during the term of the outgoing administration. It is easy to see the objective being pursued when emphasis is placed on social assistance in periods immediately preceding national elections.

3. Anti-poverty institutions, programmes and resources

3.1 General aspects

The Rodríguez Echeverría Administration (1998-2000) established the philosophical and conceptual principles, as well as the mechanisms for action, of its strategy for reducing poverty in its Solidarity Plan. This document introduced social policies and programmes aimed exclusively at persons and families living below the poverty line, taking as a point of reference the suggestions contained in the National Concertation Process.

Although to a certain extent the Solidarity Plan provides the political guidelines in this area, in reality, it is no more than a statement of intentions and wills. From the institutional perspective, the Social Development and Family Allowances Fund (FODESAF) and the Joint

Institute of Social Assistance (IMAS) are the entities in charge of carrying out the largest anti-poverty programmes in Costa Rica.²

FODESAF was created in 1974 in accordance with the Social Development and Family Allowances Act, and is administered by the General Directorate of Social Development and Family Allowances (DESAF). FODESAF's activities are financed for the most part from a 20 per cent share of total collected sales tax and a surcharge of 5 per cent applied to the total of wages and salaries paid by private and public employers to their workers.

With respect to regulations, the Act stipulates that beneficiaries of the programmes funded by FODESAF shall be "low-income Costa Ricans" and "families with scarce means". DESAF does not operate the programmes directly. This task falls to other government institutions, known as administering units or institutions, which are responsible for their management. The standard practice is for FODESAF to provide funding for the programme, and for the administering institutions, in exchange, to provide the staff, infrastructure and information systems required in order to provide the service in question.

Chronologically speaking, the Fund was more than a decade ahead of its time as compared to the social investment funds that abounded elsewhere in Latin America during the 1980s in response to the economic crisis and the strong adjustments that characterized subsequent years. This fact enabled the programmes, which were initially supported by the Fund, to become complementary instruments within the social development process, and not merely forms of compensation in the context of a social emergency. The establishment of FODESAF led to the creation of new programmes and the strengthening of existing ones in the areas of primary health care, nutrition, environmental cleanliness, water supply and the provision of direct benefits to the poor, among others (Trejos et al. 1995).

Nevertheless, over the course of time, a series of factors has emerged that undermine both the proper and effective functioning of FODESAF and the realization of the goals that gave rise to its creation. Notable among these adverse factors is the adoption of a variety of legislative measures that specifically predetermine the allocation of the Fund's resources.

Currently, 77 per cent of FODESAF's revenue is allocated to specific programmes or institutions designated by law (see Table 5). This not only reduces the financial flexibility needed to address the changing demands of individuals and households living in poverty³, but also limits control over the use of the resources involved. In this last connection, it is important to point out that the Auditor General's Office declared that institutions receiving statutory allocations have the option of submitting or not to verification of programme implementation by DESAF.

²Other organizations also carry out specific programmes aimed at low-income individuals. Nevertheless, in terms of the amount of resources invested, coverage and benefit impact, their operation is quite modest.

³ As part of a natural process of change, the highest priority needs of the poor evolve over time and according to geographical region. A few decades ago, improving the health of the population and, in particular, the nutrition of low-income children was considered a priority. However, when the rate of malnutrition dropped to relatively low levels, other problems associated with poverty, such as a lack of home ownership under certain basic conditions, began to be considered essential. Similarly, needs are not the same in every geographic area; hence, an effective programme in one region will not necessarily have the same impact in another.

The Housing Mortgage Bank (BANHVI) is the entity that receives the largest amount of resources from FODESAF; by law, 33 per cent of the annual basic revenue of FODESAF must be transferred to the Housing Subsidy Fund (see table 5). This programme grants poor families a cash allowance, referred to as a Housing Bonus, in an effort to assist them in the construction of their own houses⁴.

Table 5: FODESAF resources earmarked by legislation to various anti-poverty programmes and institutions (in percentages)

Housing Subsidy Fund (BANVII)	33.0
Non-Contributory Pension Scheme (CCSS)	20.0
School Cafeterias (MEP)	10.0
Productive Reconversion Programme (CNP)	5.0
National Children's Institute (PANI)	4.0
National Women's Institute	2.0
Sports Institute of Costa Rica	1.0
Academic Scholarships-National Scholarship Fund	1.0
Boards of Education (MEP)	0.5
Terminally-ill patients' benefit (CCSS)	0.5
Total allocated	77.0

Source: Prepared by the author on the basis of data supplied by FODESAF

The NCP Scheme administered by the Social Insurance Fund of Costa Rica (CCSS)⁵ provides financial assistance in the form of a pension to individuals in obvious need who are not capable of engaging in remunerated employment and are not covered by any of the existing pension schemes in the country.

The School Cafeteria Programme offers supplementary food to students from low-income families in outlying areas of the country, as well as strategies for improving the nutrition and health of school children and for increasing the odds that they remain in the school system. These financial resources are managed by the Ministry of Education through the Office of International Cooperation for Education (OCIE), which is also responsible for administering other large programmes, such as the Basic Education Voucher, which is a cash allowance granted to children from poor and extremely poor families, and for the provision of transport for disabled students to facilitate their access to education.

The National Children's Association (PANI) carries out programmes that provide immediate assistance to children and adolescents in situations of imminent danger. For its part, the Productive Reconversion Programme has as its main objective to stimulate agricultural development and production by financing production-oriented projects that optimise the comparative and competitive advantages of the various regions of the country.

⁴ Similarly, BANHVI is endowed with resources to fund the "Programme for the Reactivation of the Housing Subsidy Fund", whose main purpose is to meet the financial burden generated quarterly by the interest payments on securities, known as Effective Rate Bonds, issued by it.

⁵ The CCSS also administers the Indigent Population Assistance Programme, which provides health services, and the Terminally-ill Patients Benefit Programme.

In 2000, FODESAF financed more than 35 nation-wide programmes through 19 administrative units. Table 6 presents an estimate of the relative distribution of the FODESAF transfers made over the course of that year according to institution and targeted activity.

Although the results obtained for each institution are relatively consistent with the pattern of resource allocation described previously, some further considerations are well worth noting. First of all, it should be pointed out that despite not being funded with statutory transfers, the Joint Institute of Social Assistance (IMAS) receives slightly more than 10 per cent of FODESAF's endowment.

Table 6: Estimated distribution of FODESAF resources according to destination institution and activity, 2000 (in percentages)

Institution/Sector	Housing	Pensions	Nutrition	Employment	Social Assistance	Childhood /Youth	Health/ Education	Total by institution
BANVHI	32.3							32.3
CCSS		19.3			0.2		1.2	20.7
Ministry of Education			10.5				1.4	11.9
IMAS	1.7			4.5	3.2	1.0		10.5
Ministry of Health			5.9		0.9			6.8
PANI						5.1		5.1
CNP				3.1				3.1
ICAA					2.2			2.2
IDA				1.6				1.6
INVU	1.5							1.5
FONABE							1.1	1.1
Instituto de la Mujer					1.0			1.0
Other			0.4	0.2	1.1		0.4	2.1
Total by Sector	35.6	19.3	16.8	9.4	8.6	6.1	4.2	100.0

Source: Prepared by author based on the 2000 Budgetary Statement. Auditor General's Office

In accordance with the legislation that created it, IMAS is the leading institution for matters concerning poverty. It is responsible for building knowledge, as well as for conceiving and developing comprehensive nation-wide plans and programmes for the advancement and social and economic development of communities and families living in poverty and extreme poverty. Although its functions as directorate in this area have been quite limited, IMAS has developed a broad spectrum of actions aimed at poor families or vulnerable groups of Costa Rican society as part of its Programme of Comprehensive Assistance for Overcoming Poverty. The latter has six main strategic components, which include: Childhood and Adolescent Support, Family Strengthening, Comprehensive Assistance for Women's Development, Habitat Improvement, Economic and Labour Opportunities, Social Welfare Services Strengthening.

The sources of financing of IMAS are many and varied. Its own resources account for 38 per cent of its total revenue and are derived primarily from the obligation of public and private employers to transfer to it 0.5 per cent of their workers' wages, as well as from exit taxes paid when leaving the country and those assessed on hotels and related establishments.

The other components of IMAS' revenue include transfers from FODESAF (36 per cent), earnings from tax-free shops (25 per cent) and other funds (1 per cent)⁶.

With respect to the distribution of the FODESAF transfers, it should be noted that the Nutrition and Comprehensive Development Programme [*Programa Nutrición y Desarrollo Integral*], provided through the Comprehensive Assistance and Nutrition Centres (CEN-CINAI) and administered by the Ministry of Health, receives approximately 7 per cent of total funding. The programme implements actions aimed at improving the food and nutrition of pre-school children living below the poverty line through four sub-programmes, which include: meal service, the distribution of whole powdered milk, the distribution of food to families, and comprehensive assistance.

If Table 6 is viewed in terms of the destination activity, one can see that the categories of housing and the financial protection of the elderly and other vulnerable groups through non-contributory pensions, capture more than half of FODESAF's resources. The third largest category is nutrition, thanks to the long-standing School Cafeteria Programme and the consolidation of the activities carried out by the CEN-CINAI.

The category of "social assistance", which is understood as a specific cash provision to a poor individual or family in order to increase their income, and consequently, temporarily satisfy their basic needs, is only the fifth activity in descending order (6.1 per cent). This figure illustrates the strategy being implemented in Costa Rica to battle poverty, which places more emphasis on actions of social advancement and development than on the distribution of cash allowances.

The category that combines health and education—the two most important aspects of human capital—receives a rather limited share of direct transfers (4.2 per cent). Yet, one must interpret this figure with caution, since it is clear that the benefits provided by other programmes have a strong, though indirect, impact on health and education. In the specific case of Costa Rica, this fact is totally compensated by the universal nature of the health programmes, which provide guaranteed access to the country's comprehensive health programmes for virtually 100 per cent of the population, including the poor.

3.2 Institutional diagnosis

As part of the National Concertation Process carried out in the late 1990s during the Rodríguez Administration, a study was conducted on the anti-poverty effort in Costa Rica. The Special Commission on Family Allowances presented the resulting report and the main conclusions, which addressed the institutional weaknesses of FODESAF that undermined the efficiency and effectiveness of the resources devoted to this effort.

The factors that reduce the impact of actions aimed at the poor are numerous, and vary from one programme and administering institution to the next. It is generally recognized that the system, as a whole, presents a number of limitations, which include the following:

⁶ Nevertheless, two-thirds of the specific programmes are financed by transfers from FODESAF, with the remainder supplied by IMAS' own funds. The reason for this discrepancy between the financing structure of the institution, as a whole, and its respective programmes, is that a large share of the institution's own funds are aimed at covering consumption expenditures (wages and salaries, the purchase of goods and services, etc.) and at accumulating the capital needed to conduct the normal operations of the institution.

Resources are distributed to non-needy segments of the population. The benefits of programmes such as the Housing Bonus, the NCP Scheme and the School Cafeterias have been granted to a non-negligible percentage of Costa Ricans with medium levels of income at the expense of the poor, who have a greater need of them.

Table 7 is based on information provided by the 1999 Multi-Purpose Household Survey. It demonstrates that in certain FODESAF programmes, a significant number of beneficiaries do not belong to the poorest quintiles of the population. The reasons for this misallocation of benefits are numerous, but in general, are associated with an unclear definition of the target population and a failure to verify income levels reported by claimants.

In the specific cases of the School Cafeterias Programme, clear targeting of needy children is not possible without stigmatising the poor. The criteria of selection must therefore be extended to include the particular zone or school designated as needy, since an individual selection is not possible.

Table 7: Accumulated distribution of certain FODESAF-financed programmes, according to income quintile, 1999

Quintile	School Voucher	School Cafeterias	CEN-CINAI			
			Day nursery	Milk	Food	NCP
I	41	34	24	61	37	45
II	35	28	34	24	32	24
III	16	20	21	10	20	15
IV	6	12	17	3	4	12
V	2	8	4	2	7	4

Source: Solidarity Plan, 2000

Execution of partial solutions. The lack of effective institutional coordination has prevented the issue of poverty from being approached in a comprehensive fashion, since it is considered normal that the needs of the poor should be addressed separately and the conditions that would make it possible to overcome poverty in the short or medium term do not appear to be encouraged.

Duplication of functions within institutions of social action. This situation is due to the lack of an overarching body responsible for coordinating the operations of the programmes and institutions involved in efforts to reduce poverty. This results in a duplication of expenses, increasing the cost of actions and resources aimed at the same segment of the population. A prime example of this is the scholarship programme, which until recently was administered by three or more programmes, with two different programmes being run within a single institution.

High percentage of earmarked funds. The adoption of legislation earmarking nearly 80 per cent of FODESAF's resources, has almost completely eliminated the institution's discretion in suspending programmes no longer deemed advisable, financing new ones, or temporarily increasing benefits in areas considered to be a priority. During an economic recession, for instance, it may be more appropriate to postpone the grant of housing subsidies in favour of developing a programme to generate temporary employment.

Hence, a practical discrepancy exists between the solutions offered and the demands of the target population. There is full consensus with regard to the fact that the poor are the least organized and have the poorest management skills when it comes to dealing with the providers of services. In many cases, the other social sectors are more skilful in obtaining assistance from the Government, owing to their ability to lobby effectively.

The lack of effective systems for evaluating the programmes. In the past the evaluations conducted by DESAF concerning the efficiency and impact of the programmes it finances have been quite limited. This is due, in part, to a lack of administrative will, a lack of suitable mechanisms for such purposes and of integrated information systems to provide reliable data.

Beginning in 1999, this function became even more constrained when the Auditor General's Office stipulated that DESAF does not have the power to oversee the utilization of FODESAF resources earmarked by legislation.

Excessive administrative expenditures in certain programmes. There have been some cases of excessive bureaucracy, along with a great fragmentation of tasks, numerous intermediate levels and isolated departmental functions, all of which imply higher administrative costs.

Financial limitations imposed by the fiscal crisis. In recent years, the Ministry of Finance's debt to FODESAF—which has been caused by its withholding a portion of the 20 per cent share of collected sales taxes—has grown rapidly. In 2000, only 50 per cent of such revenue was transferred, obliging DESAF to significantly reduce the level of resources budgeted for the various programmes. This measure has had a negative impact on the real possibilities of increasing the coverage and benefits provided in order to keep pace with changing demographic, social and economic conditions.

Cyclic financing. In simple terms, the principal sources of revenue of FODESAF and IMAS are closely linked to the country's economic performance. In general, to obtain a satisfactory increase in sales tax (assuming constant rates of taxation) and in the social charges assessed on wages reported to the CCSS, these must be accompanied by a dynamic internal expenditure, the creation of new jobs and/or higher levels of remuneration.

Therefore, when better conditions exist to reduce poverty via economic growth, greater amounts of resources are available to support this section of the population. Logically, the problem arises when the scenario is the opposite.

3.3 Proposed solutions

In response to the foregoing diagnosis, the Government has established, as part of its Solidarity Plan, a group of general policies known as "New Principles for Addressing the Issue of Poverty". The central element of these proposals was the conversion of FODESAF into the National Solidarity and Development Fund (FONASOL), through a comprehensive reform of the legislation that created Family Allowances.

Towards the latter part of 1998, the Executive Branch sent draft legislation to the Legislative Assembly. Following an in-depth discussion within the Permanent Committee for Economic Affairs, the proposed bill was endorsed by a majority in September 2000. The main aspects of this latest version are as follows:

i) A Human Development and Family Allowances Fund (initially FONASOL) shall be created as the body responsible for financing comprehensive assistance, promotion and human development programmes aimed at the country's poor population.

ii) The Fund shall be required to finance only the Housing Bonus, the Non-Contributory Pension Scheme (administered by Social Security), the nutrition programmes carried out by CEN-CINAI and the School Cafeterias and activities of the National Children's Association (PANI). The rest of the resources are to be distributed among programmes, projects or services subject to a rigorous evaluation process. The Fund's management shall have the power to suspend, in a preventive fashion, the allocation of such resources in the event of failure to meet goals and objectives, or as a result of their unauthorized use.

iii) The National Committee for Poverty Prevention and Elimination shall be the entity responsible for coordinating and overseeing the anti-poverty social policy implemented by the FONASOL-financed programmes. It shall be composed of representatives from a variety of sectors, including a large number from civil society.

As of December 2001 the above-mentioned draft legislation has not been presented for inclusion in the Legislative Assembly's list of discussion items, owing to a lack of political will for its adoption.

Among the other actions suggested by the Government, the application of the Target Population Information System (SIPO) for use in beneficiary selection has obtained the best results to date. The SIPO is a registration system for claimants and potential beneficiaries of the country's social programmes and projects that determines their level of poverty using three different methods: the Poverty Line Method, the Integrated Poverty Method and the Point Method. The system's usefulness lies, precisely, in its ability to eliminate the "clientelism" on the basis of which some institutions award their benefits.

Although the use of SIPO has led to a number of improvements in allocating resources to the most needy individuals and families, it is still too early to evaluate its effectiveness. In the future, the risk is that individuals will find it economically rational to remain poor, for the sole purpose of being eligible for State-provided assistance.

Nevertheless, in spite of these advances, the general conclusion is that the basic problems affecting the institutions and programmes aimed at the prevention, reduction and alleviation of poverty in Costa Rica remain unresolved. Consequently, their efficiency will continue to be limited by the high percentage of earmarked funds that do not necessarily respond to the priorities of the poor, the lack of management and impact evaluations, the under-implementation of budgets owing to the failure of the Finance Ministry to transfer funds appropriated by law, and the fragmentation of benefits, among other factors.

4. The Non-Contributory Pension Scheme

The NCP Scheme is a social assistance programme that was established in 1974 by authority of the Social Development and Family Allowances Act for the stated objective of providing financial assistance to persons living in extreme poverty who are not protected by any of the existing contributory pension schemes in the country.

Initially, the Scheme granted only basic pensions. However, with the approval in January 1989 of the Life Annuity for Paralyzed Persons Act, it was required to assume the financing and management of the pensions granted to this group of persons. Thus, it currently administers two pension programmes: the Basic Pension Programme and the Severe Cerebral Paralysis Pension Programme (PCP), covering approximately 74,000 and 2,000 direct pension recipients, respectively⁷.

The NCP scheme is by law administered by the Social Insurance Fund of Costa Rica (CCSS) as a complement to the Invalidity, Old-Age and Survivors' Insurance Scheme (IVM). Consequently, the CCSS Pensions Division is responsible for establishing the policies, guidelines and other directives needed to ensure the proper administration of the Scheme. A total of 76 Administrative Branch Offices located throughout the country participate in managing the NCP Scheme, including pensions processing. At the central level, this task is handled by the NCP Scheme Department—an administrative unit within the CCSS Pensions Division.

In June of 1995, the CCSS Board of Directors approved a comprehensive reform of the NCP Scheme's regulations. It was designed to facilitate the administrative processing of pensions; introduce greater specificity in the qualifying conditions (family income per capita and the concept of the poverty line); and make the pension calculation formula progressive in nature, depending upon the number of dependents claimed by the beneficiary. The incorporation of a programme of social services also constituted a major advance.

More recently, in December 1999, the Board of Directors concluded a cooperation agreement with the Joint Institute of Social Assistance (IMAS) to use the Target Population Information System (SIPO) as a mechanism for selecting new beneficiaries, in an effort to ensure the proper distribution of its funds among low-income Costa Ricans.

4.1 Benefits

The benefits provided by the programmes of the NCP Scheme consist of cash allowances and social services. The cash allowances take the form of a basic monthly pension, with increments based on the number of dependents in the case of the Basic Pension Programme, and an amount equivalent to the lowest monthly statutory wage in force for persons covered by the Severe Cerebral Paralysis Programme (PCP). All beneficiaries are entitled to an additional payment in the month of December equal to the average of the pension amounts received during the previous twelve-month period.

The social services basically grant NCP pension recipients membership in the Health Insurance Scheme, as well as participation in training, recreation and other programmes. The insurance includes access to all the comprehensive health services provided by the CCSS.

The establishment of the basic pension amounts is carried out in conjunction with the approval of FODESAF's operating budget. However, the CCSS Board of Directors reserves the right to modify these amounts in the event of emergency or justified need.

In principle, the benefits granted by the Scheme are temporary in nature, since they are based on the pension recipient's continued state of poverty or socioeconomic need,

⁷ The management of these programmes has been the subject of ongoing debate, given that their regulations, eligibility requirements, beneficiary profile and pension amounts granted are diametrically opposed.

determined on the basis of the per capita income of the beneficiary's nuclear family and verified periodically by a means test.

4.2 Eligibility requirements

The eligibility requirements for a basic pension within the NCP Scheme state that claimants must:

- be a Costa Rican citizen by birth or naturalization
- require financial assistance from the State owing to a lack of other means
- not be eligible for a pension from any of the existing contributory schemes
- receive a monthly per capita income equal to, or less than, 50 per cent of the minimum old-age pension granted by the Invalidity, Old-Age and Survivors' Scheme
- qualify for one of the following contingency groups: persons over age 65, with or without dependents; unprotected widows with or without dependents; orphans; or persons between the ages of 50 and 65 with physical or mental disabilities that prevent them from engaging in remunerated employment.

Pensions for severe cerebral paralysis are granted to persons of any age who suffer from this condition and have been abandoned, or whose families lack the financial means to meet their basic needs, and who meet the following additional requirements, which stipulate that they must:

- be a Costa Rican citizen by birth or naturalization
- pass a socioeconomic assessment demonstrating their status of poverty
- possess a Declaration of Invalidity, with a diagnosis of severe cerebral paralysis, issued by the CCSS Qualifying Medical Commission.

4.3 Joining the Scheme

In order to join the NCP, applicants must process their request for a pension with the CCSS at the Administrative Branch Office nearest their residence, or directly with the NCP Scheme Department at the Head Office. Applicants must, in addition, undergo a preliminary interview in order for a competent official to determine if they qualify for the benefits provided by the programme. If considered a candidate for membership, the applicant receives a formal pension request, along with the necessary documents for completing the process. Subsequently, a designated social worker completes the Social Information File (FIS) in a visit to the applicant's home.

In the case of minors and persons with physical or mental impairments who, because of their condition cannot fill out the declaration, the official assumes responsibility for processing the request according to the conditions established in the corresponding instructions.

4.4 Suspension and cancellation of benefits

The pension does not provide lifetime entitlement to benefits for recipients or their families; rather, it may be suspended or cancelled. Basic pensions may be suspended for the following reasons:

-
- If a recipient is incarcerated by judicial sentence in a Penal Detention Center, provided there are no dependents.
 - Upon expiration of the five-year term of the pension, if the person has not presented a sworn declaration attesting to the continuance of his or her situation of neediness.
 - If a widow remarries or enters into common-law marriage.
 - If, for no justifiable reason, the pension has not been withdrawn for more than three consecutive months.

The life annuity of a person suffering from severe cerebral paralysis may be suspended in the following cases, subject to the completion of a required social review:

- If the pension recipient has been admitted to a CCSS hospital for more than one month.
- If it is determined that improper use is being made of the disability pension.

Such annuities may be cancelled for the following reasons:

- Upon the death of the beneficiary. If, however, there are dependents, the pension may be re-allocated to such dependents as are entitled in accordance with the regulations.
- If the financial situation of the pension recipient changes.
- If the pension recipient overcomes his or her incapacity to generate income.
- If the beneficiary transfers his or her residence to another country.

In 1999, officials in charge of administering the NCP Scheme conducted a study in order to identify beneficiaries who did not meet all the requirements contained in the current regulations. The verification process included PCP and basic pension recipients within the contingency groups of invalidity, widowhood, orphaned children and indigents. In the PCP pension group, approximately 95 per cent of the cases were analysed by means of a medical review and socioeconomic evaluation. This study enabled researchers to detect 834 pensions that had been misallocated or for which the pension recipient did not meet one of the eligibility requirements.

4.5 Finances

Since its inception, the NCP Scheme has been financed almost exclusively by statutory transfers from the Social Development and Family Allowances Fund (FODESAF), amounting to 20 per cent of the revenues of that institution. FODESAF's revenue, in turn, is composed of 20 per cent of total collected sales tax and a 5 per cent payroll surcharge assessed on public and private employers. It also receives relatively small amounts of funding from the Judiciary Branch derived from interest accrued on judicial deposits.

Nevertheless, towards the end of 1999, the Legislative Assembly approved the Alcohol and Cigarette Excise Tax Act, which will serve as an additional source of revenue for financing the NCP pensions. Similarly, the Worker Protection Act stipulates that 95 per cent

of the profits received by the Social Protection Council of San José (JPSSJ) from the electronic lottery are to be used to finance the Scheme's pensions.

The composition of the Scheme's statutory revenue in 2000 was as follows: sales tax, 48.3 per cent; payroll taxes, 46.2 per cent; liquor, beer and cigarette tax, 5.4 per cent; accrued interest on judicial deposits and bank accounts, 1.7 per cent. The category corresponding to the electronic lottery has not been included, since the system is still not operational in the country.

In recent years and contrary to current regulations, Finance Ministry authorities—arguing for the need to meet other obligations of the Central Government—made transfers to FODESAF consisting of a lower percentage of sales tax revenue than that established by law. This generated equivalent reductions in the resources transferred by the Fund to the institutions administering its programmes. With respect to the NCP Scheme, the discrepancy between actual revenue and statutory revenue has increased, reaching a maximum difference between them of 30 per cent in 2000.

As for the Scheme's expenditures, the functional classification used shows that the payment of Basic and PCP pensions represents 81.4 per cent of all expenditures. The remainder is composed of health services (12.4 per cent), contributions to the Social Services Programme (3.7 per cent) and administrative expenses (2.5 per cent).

A comparison of the NCP Scheme's actual revenue and expenditure for the period 1990-2000 reveals operational deficits in all years except 1992. The mechanism that has been used to continue honouring pensions in payment, despite liquidity problems, has been the accumulation of a debt with the CCSS in the categories of insurance costs, administrative services, and contributions to the Social Services Programme of the Invalidity, Old-Age and Survivors' Insurance Scheme. In 2000, the deficit in question represented 19.1 per cent of the revenue actually received by the Scheme.

Table 8: Non-Contributory Pension Scheme: Actual revenue and expenditure, 1995-2000 (in millions of colones)

Year	Actual revenue (1)	Expenditures (2)	Difference (1) – (2)
1995	5,138	5,367	-229
1996	7,780	7,086	694
1997	8,431	8,710	-279
1998	10,240	10,824	-584
1999	10,896	11,247	-350
2000	13,185	13,538	-353

Source: CCSS, Actuarial and Economic Planning Bureau

The tenuous financial conditions that have characterized the NCP Scheme over the past few years have limited the extension of both its vertical and horizontal coverage. The increases to basic pensions that have been decreed have not compensated for cost-of-living increases, and the prospects for granting more pensions are nearly non-existent. Given such

situation, there is no doubt in the future that one of the key objectives of the Scheme will be to seek alternatives for strengthening its finances.

4.6 Size of the programme

Within the context of the National Pension System (SNP), pensions granted by the NCP Scheme over the last ten years have represented, on average, 33 per cent of all pensions granted by the basic schemes in effect in the country. In addition to the NCP, this category includes the Invalidity, Old-Age and Survivor's Scheme (IVM) and the special schemes for civil servants.

Table 9: The share of non-contributory pensions in pension recipients and different items of expenditure, 1990 and 1999 (in percentages)

	1990	1999	Average
NCP in total pension recipients	36.6	31.2	33.0
NCP in total social expenditure	2.0	1.8	1.9
Expenditure on NCP in GDP	0.3	0.3	0.3
NCP in total expenditure for pensions	8.0	7.0	7.1

Source: Prepared by author based on data supplied by SIDES.

Conversely, the expenditures of the NCP Scheme represent only 7.1 per cent of the country's total expenditures for pension payments—a category that remains stable in terms of its share of GDP and public social spending. This difference between the relative weight of the number of pensions and the programme's corresponding expenditures within the context of the National Pension System (SNP), demonstrates, in addition to the nature of the scheme in question, the problem of the inadequacy of the average pension amount provided by the Scheme.

Despite the fact that the number of NCP pensions grew by 49.2 per cent between 1990 and 2000, its evolution during that period was highly variable, making it impossible to extend coverage in a sustainable fashion. Furthermore, the number of direct beneficiaries in the Basic Pension Programme remained stagnant during the five-year period between 1995 and 1999. It was not until 2000, in an effort heavily sponsored by the Central Government, that nearly 8,000 new pensions were granted.

Nearly all of these new pensions were granted to elderly persons—a criterion in keeping with the guidelines of the CCSS Board of Directors, which have been aimed at channelling the Scheme's resources towards broadening the coverage of the elderly population. This policy is directly related to the programme to grant a universal basic pension to all adults over age 70 who are not protected by one of the existing pension schemes.

Hence, the composition of the coverage tends to be concentrated in old-age pensions, which account for 61.3 per cent of the total (see table 10). This is due to the suspension of a large number of invalidity pensions, given the failure of claimants to meet the necessary eligibility requirements.

Table 10: Basic pensions awarded, according to contingencies, 1998 and 2000 (in number and percentages)

Contingency	1998		2000	
	Number	Percentage	Number	Percentage
Old age	30,451	43.2	46,593	61.3
Invalidity	30,297	42.9	23,106	30.4
Other	6,767	9.7	3,995	5.2
PCP	2,157	3.1	2,314	3.1
Total:	69,672	100.0	76,008	100.0

Source: CCSS. NCP Scheme Department.

4.7 Pension amounts

The financial constraints experienced by the NCP Scheme over time have led to significant erosion in the purchasing power of basic pensions, which has undermined the effectiveness of this important social assistance programme. The average pension amount granted in 2000 is, in real terms, 28 per cent lower than that granted in 1975.

In contrast, the purchasing power of the PCP pension grew by 185 per cent over the period 1990-2000. This excessive increase is mainly due to a change in the mechanisms used to determine the PCP pension amounts. Although the legislation that created PCP pensions stipulated that the amount of the pension should correspond to the lowest monthly statutory wage established by the Executive Branch, it was not until 1998 that this provision was met, since previously the calculation was made by the CCSS Board of Directors in keeping with the financial possibilities of the Scheme.

Table 11: Nominal and real average non-contributory pensions, 1975-2000 (in US-dollars)

	Basic pension			PCP pension		
	Nominal	Real ¹	US\$ ²	Nominal	Real ¹	US\$
1975	220	8,333	37.1			
1980	331	7,919	34.6			
1985	893	4,942	17.7			
1990	2,115	4,966	23.1	5,700	13,383	62.2
1995	5,481	5,481	30.5	17,018	17,018	94.7
2000	10,339	5,985	33.5	63,559	38,164	206.2

¹ Amounts deflated by Consumer Price Index for Dec. 1995

² In US dollars, at the annual average exchange rate

Source: Annual Report of the Non-Contributory Scheme, CCSS, 2000.

In order to provide an additional dimension to the interpretation of the trend in pension amounts, it is extremely useful to compare these to certain minimum protection variables, such as the minimum old-age pension granted by the Invalidity, Old-Age and Survivors' Scheme (administered by the CCSS) or the statutory minimum wage in force in the country.

Table 12: Basic pension benefit levels compared to other basic income levels, 1990-2000 (in percentages)

Year	Basic NCP pension compared to			PCPS compared to		
	Minimum old-age social insurance pension	Statutory minimum wage for unskilled workers	Minimum wage for domestic workers	Minimum old-age social insurance pension	Statutory minimum wage for unskilled workers	Minimum wage for domestic workers
1990	26.4	13.4	18.1	71.3	36.0	48.7
1991	22.4	11.1	14.4	60.0	29.9	38.7
1992	22.3	8.8	10.1	60.0	23.7	27.1
1993	35.4	15.4	17.6	127.8	55.5	63.5
1994	29.4	15.2	17.2	106.4	55.1	62.4
1995	33.6	15.5	17.8	97.8	45.2	51.7
1996	44.6	17.6	20.2	97.8	38.7	44.3
1997	37.0	14.9	18.4	92.8	37.3	46.1
1998	36.3	14.8	17.1	212.4	86.7	100.0
1999	32.5	13.3	15.3	211.8	86.7	100.0
2000	33.7	13.6	15.7	213.9	86.7	100.0
Average	32.1	14.0	16.5	122.9	52.9	62.0

Source: CCSS. "Financial strengthening of the Non-Contributory Pension Scheme"

The results speak for themselves and the conclusions are obvious. The fact that basic pensions are insufficient is undeniable, as is the fact that pensions for severe cerebral paralysis are disproportionate, constituting a broad inequality, not to mention a dysfunction of the Scheme's plan of protection.

Although it does not make sense for an NCP Scheme to grant equal or greater benefits than those of a contributory scheme, owing, among other things, to the perverse conduct this may generate, the levels of protection offered by basic pensions in the last decade have actually been reduced. This contrasts with the indicators obtained for the PCP administered by the NCP Scheme, in which pension amounts have increased nearly five-fold.

The considerable difference between the amounts of basic and PCP pensions results in a pronounced imbalance in terms of the share of total expenditure corresponding to each of these, based on the number of recipients. In 2000, the number of PCP pensions represented only 3 per cent of all NCPs, but accounted for more than 16 per cent of the payments of these.

4.8 Programme impact: Coverage

The profile of NCP beneficiaries is determined by the eligibility requirements and institutional guidelines that determine which persons are entitled to receive the benefits and services provided by the programme. Thus, the strict requirement that beneficiaries be living below the poverty line, or the priority of expanding the scope of coverage of the elderly, are aspects that define *a priori* some of the most important characteristics of its beneficiaries.

According to the data supplied by the 2000 Household Survey, direct beneficiaries of the NCP have a low level of education, given that a large percentage fail to complete primary school (82.6 per cent). The geographic distribution is highest for rural inhabitants (66.9 per cent), and in overall terms, for women (57 per cent). As far as age groups are concerned, the results are quite predictable: 65.9 per cent of pension recipients are 65 and older, with a majority aged 75 or older.

Another interesting aspect in analysing a pension scheme is its rate of effective coverage. In the case of Costa Rica, the 2000 estimates show (see table 13) that 20.2 per cent of persons over age 65 receive a NCP; 35.3 per cent receive a pension from the Invalidity, Old-Age and Survivors' Scheme or from the Special Schemes; while, 44.4 per cent receive no pension (see table 13).

Table 13: Coverage of the elderly population by social security schemes, 2000 (in percentages)

Age group	Non-Contributory Pensions		Social Insurance and Special schemes		No pension received	
	Elderly persons	Poor elderly persons	Elderly persons	Poor elderly persons	Elderly persons	Poor elderly persons
65 to 74	15.0	29.2	38.0	24.8	47.0	46.0
75 and older	28.6	41.6	31.1	19.0	40.3	39.4
Average 65 and older	20.2	34.5	35.3	22.3	44.4	43.1

Source: Prepared by author on the basis of the 2000 Multi-Purpose Household Survey.

The NCP's effective coverage of poor persons aged 65 or older who were not in receipt of a pension from any of the existing contributory schemes in the country—which, by definition, constitutes a section of its target population—was a mere 44.4 per cent⁸ (see table 14). This means that more than half of the country's elderly poor does not benefit from the financial protection of a pension.

In absolute terms, this figure means that 80,452 elderly persons live in poverty. The NCP Scheme covered 27,795 persons, whereas approximately 17,950 others received pensions from the Invalidity, Old-Age and Survivors' Scheme or from Special Schemes. Some 34,707 persons aged 65 or older are without cover. Given the relative aging of the population in the country, it is possible to project an increase in the number of persons not

⁸ This percentage is calculated as follows: $34.5 / (34.5 + 43.1)$. Logically, it excludes poor people with pensions in the national contributory schemes, since these do not form part of the NCP target population.

protected by the NCP in the future, and consequently, the increased importance that should be attached to the programme as a fundamental component of the social security system.

In an effort to more fully measure the programme's coverage, Table 14 includes not only the rate corresponding to the elderly, but also that of two other eligible groups in the scheme: widows, with and without dependents; and disabled adults. The general conclusion is that the NCP's effective coverage is even lower than that corresponding exclusively to persons aged 65 or older since it drops as low as 37.4 per cent.

Table 14: Coverage of the elderly population, widows and disabled adults by social security schemes, 2000 (in percentages)

Group	Coverage		
	Non-contributory pensions	Social insurance and special schemes	No pension received
Elderly persons	34.5	22.3	43.1
Widows with and w/o dependents	12.1	35.7	52.2
Disabled adults	15.3	4.0	80.7
Total	29.7	20.7	49.7

Source: Prepared by author on the basis of the 2000 Multi-Purpose Household Survey.

Persons not covered by the Scheme tend to be concentrated in rural areas. This phenomenon is related primarily to the fact that there is little coverage of the programme in the mass media, as well as to the greater difficulties faced by residents of these areas for successfully completing the procedures required by government agencies. As for distribution by sex, women predominate by a ratio of 6 to 4 compared to men—a statistic that is on a par with the one observed for NCP beneficiaries. The percentage of this population having completed a level of education equal to or less than primary school is 74 per cent, whereas one-third of the total has no type of formal education.

4.9 Programme impact: Poverty reduction

One of the most frequent criticisms made of the NCP Scheme is that it grants pensions to persons who are not poor. This situation not only undermines efficiency when allocating the scarce resources of the Scheme, but also violates the principle of equitably distributing benefits.

According to the data supplied by the 2000 Multi-Purpose Household Survey, some 40 per cent of NCP pension recipients belong to households, which, according to poverty measurements relying upon the line-of-income method, are classified as “non-poor”. This is due, to a large extent, to the long-standing absence of precise qualifying indicators, such as per capita family income and the poverty line. These concepts were applied for the first time in June 1995 with the adoption of the last comprehensive reform to the Regulations of the NCP Scheme for Basic Pensions.

Worth noting is the lack of human resources available to the NCP administering institutions for verifying beneficiaries' income. In a pilot test involving 192 NCP pension recipients, and carried out as part of a project entitled Quality Control Audit of the CCSS NCP Scheme, which was sponsored by the Government, the United Nations Development Programme and the State of the Nation Project, it was determined that with regard to beneficiary selection, some 63 per cent of beneficiaries declared not having been visited by a CCSS official before being granted a pension.

Table 15: Classification of the basic pension recipients according to level of poverty^{/1}, 2000

Level of poverty	Number	Percentage
Extreme poverty	20,910	32.0
Basic needs unsatisfied	18,224	27.9
Non-poor	26,186	40.1
Total	65,320	100.0

^{/1} Includes individuals reported in the Household Survey as having no known income. In the attribution of income for classification according to level of poverty, both schooling and occupational category were taken into consideration.

Source: 2000 Multi-Purpose Household Survey, INEC.

In terms of geographic distribution, the distortion in awarding benefits is greatest in rural areas. This phenomenon has to do principally with the advantage that rural inhabitants have in terms of access to information. The Quality Control Audit determined that the CCSS does not utilize any public information mechanisms in order to attract beneficiaries to the programme, and that in 50 per cent of the cases, individuals found out about the Scheme through the recommendations of relatives or influential persons.

Despite this obvious defect in the manner in which the Scheme allocates resources, these estimates must nevertheless be adjusted. Given that benefit is awarded on the basis of per capita household income, exclusive of the pension, it is conceivable that its inclusion might enable some beneficiaries to move from one poverty level to another, or to move from the category of "poor" to "non-poor". This is an effect that can only be quantified by simulating the pension recipients' level of poverty with and without the income provided by the pension.

The results of this exercise show that despite the loss of purchasing power of the pensions granted by the Scheme, their disbursement permitted a decrease of 8.7 per cent in the percentage of beneficiaries who were originally registered as being extremely poor, whereas the percentage of non-poor increased from 34.6 to 40.1 per cent.

Table 16: Comparative analysis of NCP beneficiaries' level of poverty, with and without pension income, 2000 (in percentages)

With pension	Without pension			Total with pension
	Extremely poor	Poor	Non-poor	
Extremely poor	32.0			32.0
Poor	8.6	18.7	0.6	27.9
Non-poor		6.0	34.1	40.1
Total without pension	40.7	24.7	34.6	100.0

Source: Prepared by the author on the basis of the 2000 Multi-Purpose Household Survey.

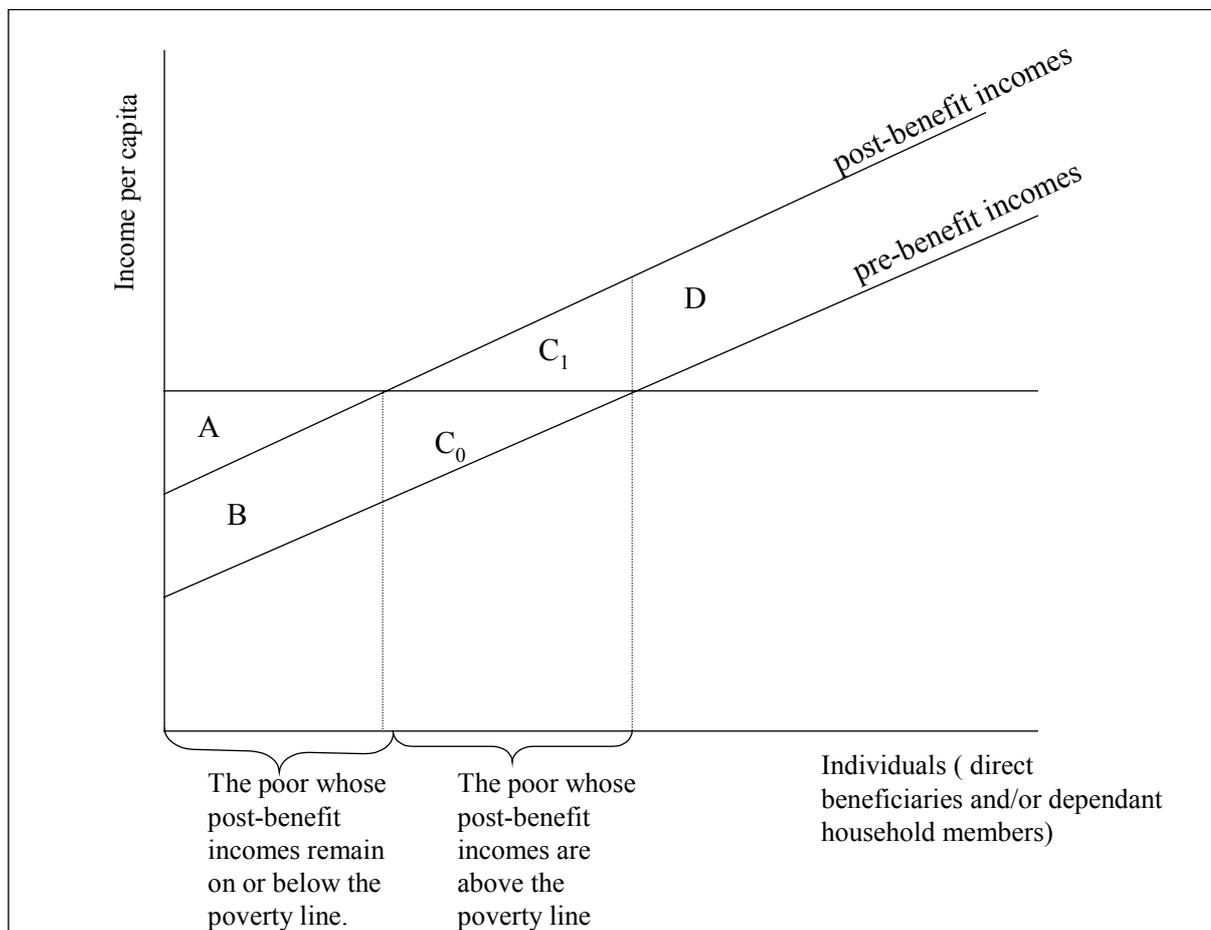
In fact, 32 per cent (see table 16) of the beneficiaries declared as being extremely poor remain so with or without the pension, whereas 8.6 per cent of the beneficiaries are able to improve their status from “extremely poor” to “poor” thanks to their pension. Because of the low amount of the pension, no beneficiary in this category manages to rise above the poverty line completely.

As regards persons whose status was originally one of unsatisfied basic needs, some 6 per cent rose to the level of “non-poor” when the NCP pension was added to their income. In short, some 14.6 per cent of the Scheme’s beneficiaries are able to improve their level of poverty thanks to the additional income provided by the pension.

Nevertheless, in sharp contrast to the basic objectives of the scheme, 34.6 per cent of all beneficiaries show no evidence, at least in terms of income, of any degree of poverty whatsoever, with or without the pension. It should be pointed out, however, that approximately one-third of these are households considered as being vulnerable to poverty.

Although only a small percentage of pension recipients actually change their level of poverty, the pensions of the NCP contribute (with the exception of those of the non-poor) to narrowing the poverty gap within each group. Figure 2 illustrates the impact of the programme in reducing poverty. If IPC_i is the per capita income of the individual i , and LP is the per capita poverty line, then:

Figure 2: Change in poverty status of target population as a result of (pension) benefits



- A:** The post-benefit poverty gap.
- B:** The effective reduction of the poverty gap for those (pre-benefit) poor, whose post-benefit incomes remain on or below the poverty line.
- C₀:** The effective reduction of the poverty gap for those (pre-benefit) poor, whose post-benefit incomes are above the poverty line. This section corresponds solely to the percentage of the pension enabling them to reach the poverty line.
- C₁:** The amount of benefit that lifts the post-benefit incomes of the (pre-benefit) poor above the poverty line. Such benefits are unjustified so long as there remains an uncovered poverty gap.
- D:** The amount of transfer that goes to the (pre-benefit) non-poor. Its existence is obviously unjustified, since its reallocation to those in need would diminish the residual poverty gap.

Thus, the portion of benefit that reduces the poverty gap corresponds to the sum of the areas identified as B and C₀. In determining this figure, it is important to keep in mind that (assuming a uniform distribution of household income) the total pension amount granted to a direct beneficiary (except for those who live alone) contributes to a lesser extent to reducing his or her individual poverty gap, since the remainder is distributed among the other members of the household.

Thus, it is possible to calculate the narrowing of the poverty gap by taking into account only the improvement in the situation of the direct beneficiary, or by including the improvement of all family members.

When considering only direct beneficiaries, the measured impact is limited in nature, since it excludes the positive effect on the other household members. As a result, the various concepts developed earlier (A, B, C₀, C₁, and D) can be applied to the direct beneficiaries of the NCP benefits as well as to all the household member that indirectly benefit from the NCP benefits.

If applied to the direct beneficiaries the area B includes all persons who, with or without a pension, maintain some degree of poverty, whether in the category of extreme poverty or of unsatisfied basic needs. C₀ includes only those beneficiaries, who, with the help of a pension, were able to cross over to the category of non-poor. It represents only the portion of the pension that enables them to have a per capita income equivalent to that of the poverty line.

In a broader definition of the impact of the NCP on poverty reduction, consideration is given to the narrowing of the poverty gap of not only the direct beneficiary, but of all family members as well, assuming an equitable distribution of household income. In this case, the narrowing of the poverty gap includes the entire pension amount received.

The results obtained by applying the above-mentioned methodology, with data from the 2000 Household Survey, are summarized in Table 17. They reinforce the idea mentioned previously concerning the inappropriate distribution of NCP pensions to beneficiaries not classified as “poor”.

Given the broader criteria for measuring the impact of the NCP, the conclusion to be drawn is that for every 100 colones spent on pensions, 62.1 colones meet the objective of narrowing the poverty gap of the beneficiary and his or her family. What this means is that nearly 40 per cent of the resources administered by the NCP are improperly allocated, whether to persons who do not require assistance, or to those who receive more money than they actually need.

Nevertheless, these calculations suggest a modest level of progress in the allocation of resources in 2000 with respect to the estimates established by Camacho et al. (2000), carried out on the basis of the 1999 Household Survey, which found that 55.2 per cent of the funds have the desired impact on the target population. Two good reasons for this improvement may be: i) an increase in the basic pension by a percentage greater than that of the inflation rate for 2000 and ii) the grant of new pensions, principally to elderly persons, through the use of the SIPO programme.

Table 17: Narrowing of poverty gap by the NCP Scheme, 2000 (in millions of colones)

	Gap without pension (1)	Gap with pension (2)	Reduction of gap (1) – (2)	% resources allocated
Direct beneficiaries				
B	6,739	4,318	2,421	23.8
C _o	174	0	174	1.7
Total	6,913	4,318	2,595	25.5
Direct beneficiaries plus family members				
B	20,273	14,478	5,795	56.9
C _o	527	0	527	5.2
Total	20,800	14,478	6,322	62.1

Source: Based on 2000 Multi-Purpose Household Survey.

5. Conclusions and recommendations

Social spending policies in Costa Rica have undoubtedly played a key role in the gradual reduction of poverty—a process that has remained fully in force throughout the last decade. Moreover, social spending is on the increase. Expenditures for universal basic education, social security pensions and economic services more than doubled in this decade. The considerable increase in social assistance spending (within the category of social security), which nearly doubled during the 1990s, also deserves mention.

As for the internal structure of public social spending, important changes have been observed that point to the loss in the relative share of expenditures in health, housing and other social services, which have yielded to pension expenditures. If national demographic forecasts are taken into account, this trend will most likely continue in the future.

Despite the efforts of the country to keep pace with social spending, its social programmes have not been isolated from a certain degree of fluctuation between the assistance-oriented policies designed to target programmes and spending to certain specific sectors, on the one hand, and the universal approach that favours advancement as the main instrument of social change, on the other. This irregularity, or lack of continuity, in the application of social protection and assistance policies may be noted as a considerable obstacle in managing the country's social sector.

The creation of FODESAF at the beginning of the 1970s put the country ahead of its time by more than a decade when compared to the social investment funds that were inaugurated in the 1980s and 1990s elsewhere in Latin America. In this sense, they were an innovation that demonstrated the Costa Rican Government's traditional concern for social issues. FODESAF's resources have permitted the creation of new social programmes or the strengthening of existing ones; however, over the course of time, new problems have surfaced to undermine the effectiveness of their social impact.

Among the factors that tend to reduce the impact of actions aimed at Costa Rica's poor population are the problems encountered in the various institutions concerning beneficiary selection (although recently there have been some improvements); the fragmentation of institutional efforts and resources; the duplication of efforts and lack of coordination among institutions and programmes; the relative lack of institutional capacity for planning and evaluating resource allocation and the impact of the programmes they administer; excessive administrative spending; and irregular financing, among others.

Despite rising social expenditures and advances in the social domain, the general conclusion is that the basic problems encountered by the institutions and programmes aimed at the prevention, reduction and alleviation of poverty in Costa Rica remain unresolved.

Through the recent adoption of legislation, mechanisms have been created for the predetermined allocation of funds for specific ends. Although this is positive in that it guarantees greater coherence in the channelling of funds, the truth is that the needs and priorities of the poor are not static, and therefore their predetermination has the adverse effect of undermining the flexibility of social assistance policies.

As for the NCP Scheme—the main focus of this study—it may be stated unequivocally that this programme has played an important role in alleviating poverty. After financing social housing programmes, NCPs account for FODESAF's second largest budget item.

The main problems of the NCP Scheme may be grouped into two broad categories: (i) problems concerning financing; and (ii) problems concerning management. Spending on non-contributory pensions followed an irregular pattern throughout the decade of the 1990s, in terms of its relative share of total social expenditure, although it ended the decade with a slight increase over that of the beginning. Recently, in 1999 and 2000, legal reforms were adopted that call for boosting the Scheme's revenues through the creation of new specific sources of financing. However, judging by its limited coverage of the elderly poor, these resources continue to be inadequate.

The finances of the scheme, and therefore, its capacity for vertical and horizontal coverage, have traditionally been affected by a lack of compliance with the legislation regulating the funding of FODESAF, thereby reducing the level of resources it effectively receives. In 2000, the discrepancy between the NCP's statutory revenue and what it actually received reached a historical high of 30 per cent. This is an indication that the country has not matured completely in terms of applying a coherent policy for financing social assistance, particularly with respect to non-contributory pensions. It furthermore highlights the absence of judicial mechanisms to sanction officials responsible for diverting these funds.

The Programme showed an operational deficit during the 1990s, which has led to an accumulated debt with the Social Insurance Fund of Costa Rica. The tenuous financial condition of the NCP has limited the extension of coverage both vertically and horizontally. Increases decreed to basic pensions have not compensated for those in the cost of living, and the prospects for raising pension amounts are practically non-existent. Without a doubt, one of the fundamental challenges of the country's social protection policy will be to guarantee that the financing of the NCP Scheme keeps pace with increasing demand.

The ability of the programme to expand the number of pension recipients (horizontal coverage) has not only been faced with the financial constraints cited above, it has also been limited by the misallocation of a considerable number of pensions to persons who either do

not need them, or who do not fall within the contingency group considered a priority for the receipt of benefit. The estimate contained in this study of the effective coverage provided to three contingency groups (elderly persons, widows with or without dependents, and disabled adults) leads to the conclusion that approximately 60 per cent of the Programme's target population does not enjoy a pension—a figure that illustrates the magnitude of the challenge facing the NCP Scheme in the future.

During the 1990s the number of pensions grew by nearly 50 per cent, although with a high degree of variability from one year to the next, as well as a period of stagnation in the second half of the decade. It was not until 2000 that this trend was halted, although with slim prospects for converting the increased coverage into a permanent policy.

In terms of the level and profile of the pensions granted (vertical coverage), the economic difficulties of the NCP have caused a considerable erosion in the purchasing power of basic pensions. To give an example, the average pension granted in 2000 is, in real terms, 28 per cent lower than that granted in 1975. However, the trend in pensions for persons with severe cerebral paralysis (PCP) is quite different, given that the amounts granted for this contingency grew by 185 per cent over the last decade, as a result of legislation equating the PCP pension with the minimum statutory wage.

As mentioned, the other major problem of the NCP concerns its administration. There is evidence that pensions are being granted to a considerably high number of persons who are not poor, or else who would not be even if their non-contributory pension were suspended. This situation not only undermines the efficiency of the allocation of the Scheme's scarce resources, but also violates the principle of an equitable distribution of benefits.

There are at least three factors that combine to create this situation: (i) the lack of human resources to apply a more rigorous beneficiary selection process; (ii) the lack of political will to separate the grant of pensions from political party interests; and (iii) the lack of a permanent information programme to generate a greater number of requests from the population segments most needing assistance.

Despite all the above, this study has gathered evidence demonstrating that the NCP has a positive impact on the reduction of poverty. It is estimated that nearly 15 per cent of the Scheme's beneficiaries witness an improvement in their level of poverty that is attributable to the additional income provided by the pension. Application of the broad criteria for determining the impact of the NCP leads to the conclusion that for every 100 colones spend on pensions, 62 colones are indeed meeting the objective of narrowing the poverty gap of the beneficiary and his or her family.

The above-mentioned conclusions give rise to some policy recommendations, on at least four fronts of action, as follows:

a) To the extent that the coverage of the contributory pension schemes remains stagnant—as it has been over the course of the last decade—it will be necessary to work towards establishing additional sources of revenue to finance the growing demand for NCPs. Although the Worker Protection Act [*Ley de Protección al Trabajador*] created new sources of income, these are considered insufficient to create a significant impact.

b) In the future, the above-mentioned efforts will have to be strengthened, with legal reforms that would penalize public officials responsible for diverting NCP funds—a

pernicious practice that has unfortunately become institutionalized within FODESAF's management.

c) In order to resolve current problems in the beneficiary selection process, it is indispensable that the Social Insurance Fund of Costa Rica (CCSS) assume a more proactive attitude. Unfortunately, the investment in human resources in order to improve the beneficiary selection process is seen solely as an expense, and not as an opportunity to make the Scheme more efficient. In view of the institutional constraints for hiring more social workers to support this process, it might be possible to design an external beneficiary selection system in which qualified independent professionals perform the necessary functions.

d) The existence of a large contingent of persons living close to the threshold of the poverty line creates practical difficulties for applying a pension calculation formula for optimizing the selection of beneficiaries living close to this line. In the first place, the grant of non-contributory pensions should begin to bear some relation to the level of pensions that might be received by individuals who do not manage to acquire rights to contributory pensions, but who do have to their credit a certain number of contributory payments. Apart from achieving greater parity with contributory pensions, it would be advisable to seek methods of calculation that grant proportionally higher benefits to poor persons living furthest from the poverty line.

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