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## Costa Rica Sees Accelerated Poverty Reductions

by Mike Leffert

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Surpassing government expectations, poverty in Costa Rica declined by 3.5% during 2007. President Oscar Arias had made a campaign promise to reduce the index by 4% by 2010, the end of his term. "In the political campaign, we said we were going to try to reduce poverty by four points by 2010, one point per year. In the first year, we have succeeded in reducing it by 3.5 points. This encourages us to think that we are going to continue reducing it and that we will exceed the goal," he said.

The Encuesta de Hogares 2007, an annual poll by the Instituto Nacional de Estadística y Censos (INEC), a state agency, found 16.7% of Costa Rican homes met the criteria for poverty, down from last year's 20.2%. The new figure breaks down to 13.4% non-extreme poverty and 3.3% extreme poverty. For 2006, those figures were 14.9% and 5.3%. The survey was taken in July, involving 14,500 homes.

When Arias assumed office in May 2006, the overall figure stood at 21.2%. INEC said that factors in the decline included economic growth for the country as a whole, a drop in inflation, more jobs, increases in pension payments, and government aid in the form of social programs like the Avancemos program, a 2006 initiative aimed at reducing the dropout rates of schoolchildren by supplying financial aid. Arias added one of his own, commenting, "It is not possible to reduce poverty if the economy does not grow by more than 6% on a sustained basis. If we continue as we have, we could reach 2010 eliminating extreme poverty." The present extreme poverty number represents 36,000 families in Costa Rica.

In 2006, the economy grew by 6.6%. Social spending pays off According to Pablo Sauma, economist at the Universidad de Costa Rica (UCR), the growth that contributed to the reduction came partly from foreign investment and partly from years of prudent fiscal and monetary policies. But Victor Hugo Cespedes, vice president of the INEC council of directors, said the Arias administration deserved some of the credit. The Avancemos program, for instance, gives poor families an average US\$67 per child to keep the kids in school, and nearly 90,000 students are currently enrolled. This amount is significant in that, according to the institute's criteria, an urban family had to make less than US\$104 per month per person to qualify as poor and US\$48 to qualify as extremely poor. The pension increase was also important, said Cespedes. The Caja Costarricense de Seguro Social (CCSS), the state social security system, gives health care and monthly cash to seniors, invalids, widows, and orphans living in extreme poverty.

Arias doubled the cash allowances to US\$67 a month in 2006 and then raised them again in 2007 to US\$96 monthly. Caja director Roy Retana said some 74,000 people receive these benefits. Costa Rica's growth figures are impressive, especially for Central America, but somewhat uneven. The poorest 20% of the population has benefited from the state social programs, and the country's richest 20% have gotten the greatest benefit across the board. This sector collected nearly half the

nation's total income last year. Employment is at an all-time high in the country, but not all sectors benefited equally.

There was a 30% increase in financial-sector employment, 20% in construction, and 11% in hotel and restaurant work. More demand for skilled labor could further increase inequality, said Cespedes, unless quality education becomes more widely accessible.

Some of the poverty decline, however, is a result of INEC's methodology, which critics say is insufficiently rigorous. The Caja's Retena said the US\$48 criterion for urban and US\$42 for rural extreme poverty is too low. The Caja qualifies families making as much as 50% more as extremely poor. "It's tiny," he said. "It would be hard for a person with US\$46 to cover their basic nutritional needs." INEC has not adjusted the canasta basica, the basket of goods used to define those needs, since 1988. INEC's assistant director Maria Elena Gonzalez said the next survey would be based on an update, but The Tico Times newspaper pointed out that the institute has been making that promise for years. Gonzales admits, "It's hard to know what will happen. It could be that the poverty line goes up." That would move more families into the poor column.

That is not something Arias would like to see. He wants to prevent a backslide with a progressive tax reform and the creation of a development bank, but his chances of getting it in a moribund Asamblea Legislativa (see other article, this edition of NotiCen) are slim. The AL could not turn its attention to these matters until March 2008. Until then it will be focused on legislation related to the Central American Free Trade Agreement (CAFTA). Although these poverty reductions and economic improvements came without the trade agreement with the US, Arias believes he needs it to further reduce poverty, a belief others find questionable. "We think the free-trade agreement will help a lot," Sauma said. "That's the bet, right? But things don't always turn out as one hopes. There are no magic recipes." Perhaps not.

But for the rest of Central America, there is at least a little magic in Costa Rica's performance. More than half the 40 million inhabitants of the isthmus live in poverty. After Haiti, Nicaragua, Honduras, and Guatemala are three of the poorest countries in the hemisphere. According to UN figures, Central America presents the planet's most unequal distribution of wealth. The country next door to Costa Rica, Nicaragua, has 61% of its population in poverty, of whom 15% suffer extreme poverty.

While Arias pays to keep his nation's kids in school, in Nicaragua a half-million children do not go to school. The country is 33% illiterate. Even in El Salvador, the region's next-soundest economy after Costa Rica, the poverty rate is above 30%. In Guatemala, the largest economy, poverty exceeds 50%, and 63% of Honduras' people are poor. Unlike Costa Rica, these countries all have CAFTA. But according to the Economic Commission for Latin America and the Caribbean (ECLAC), economic growth for the region, at 6.1%, was well in line with that of Costa Rica and was the greatest in 14 years.

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