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UNCLASSIFIED

**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523**

COSTA RICA

PROJECT PAPER

**POLICY PLANNING AND ADMINISTRATIVE
IMPROVEMENT**

AID/LAC/P-152

Project Number: 515-0190

UNCLASSIFIED

PPM P 311

AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT DATA SHEET	1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete	Amendment Number _____	DOCUMENT CODE 3
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2. COUNTRY/ENTITY COSTA RICA	3. PROJECT NUMBER <input type="checkbox"/> 515-0190 <input type="checkbox"/>
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4. BUREAU/OFFICE N/A	5. PROJECT TITLE (maximum 40 characters) POLICY PLANNING AND ADMINISTRATIVE IMPROVEMENT
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6. PROJECT ASSISTANCE COMPLETION DATE (PACD) MM DD YY 06 30 86	7. ESTIMATED DATE OF OBLIGATION (Under 'B.' below, enter 1, 2, 3, or 4) A. Initial FY <input type="checkbox"/> 83 <input checked="" type="checkbox"/> B. Quarter <input type="checkbox"/> C. Final FY <input type="checkbox"/> 84 <input checked="" type="checkbox"/>
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8. COSTS (\$000 OR EQUIVALENT \$1 =)						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AYD Appropriated Total	3,000	300	3,300	4,000	500	4,500
(Grant)	3,000	300	3,300	4,000	500	4,500
(Loan)						
Other U.S.						
Host Country		700	700	--	1,300	1,300
Other Donor(s) CINDE		200	200		200	200
TOTALS	3,000	1,200	4,200	4,000	2,000	6,000

9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) SD	910	930		0	0	3,500		3,500	
(2) EH	660	530		0	0	1,000		1,000	
(3)									
(4)									
TOTALS						4,500		4,500	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each) 840 720 960	11. SECONDARY PURPOSE CODE 730
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12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each) A. Code	INTR	PVON	PVOU	RGEN	COOP			
B. Amount								

13. PROJECT PURPOSE (maximum 480 characters)

To make inputs to policy formulation, planning, and the design and implementation of management and administrative systems, which are required to achieve objectives of the CBI Implementation Plan for Costa Rica.

14. SCHEDULED EVALUATIONS Interim MM YY MM YY Final MM YY 12 86	15. SOURCE/ORIGIN OF GOODS AND SERVICES <input checked="" type="checkbox"/> 000 <input type="checkbox"/> 941 <input checked="" type="checkbox"/> Local <input checked="" type="checkbox"/> Other (Specify) <u>CACM</u>
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16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY	Signature: <i>Bastian B. Schout</i> Title: <i>acting Director</i> USAID/Costa Rica	Date Signed MM DD YY 04 22 83	18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION MM DD YY
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**POLICY, PLANNING, AND
ADMINISTRATIVE IMPROVEMENT**

AID PROJECT No. 515-0190

Presented for approval:

April 19, 1983

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PROJECT AUTHORIZATION

Name of Country: Costa Rica

Name of Project: Policy Planning and Administrative Improvement

Number of Project: 515-0190

1. Pursuant to Sections 105 and 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Planning and Administrative Improvement Project for Costa Rica (the "Cooperating Country") involving planned obligations not to exceed four million five hundred thousand United States Dollars (US\$4,500,000) in grant funds over a period of 18 months from the date of authorization subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign currency and local currency costs for the project ("Project"). The planned life of the Project is three years and two months from the date of initial obligation.

2. The Project consists of inputs to policy formulation, planning, and design and implementation of management and administrative systems, which pertain to the cooperating country and/or the Costa Rican private sector, and which are required to achieve objectives of the CBI Implementation Plan for Costa Rica.

3. The Project Agreement, shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Project, shall have their source and origin in the United States and countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.

b. Host Country Procurement

All procurement shall be made directly by A.I.D. except as A.I.D. otherwise agrees in writing.

c. Other

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any specific activity, the cooperating country shall furnish in form and substance satisfactory to A.I.D., a complete description of such activity which shall include, but not be limited to its budget and implementation schedule.

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance any implementing entity for an approved activity(s) under the project, the cooperating country shall furnish in form and substance satisfactory to A.I.D., a statement of the name of the person holding office in said entity and legally empowered to act for said entity with reference to this Agreement.

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement to finance the Customs Administration activity under the Ministry of Finance, the Cooperating Country, (in the event that A.I.D. waives its right to contract directly the technical assistance services required) shall furnish in form and substance satisfactory to A.I.D., a contract for long-term Technical Assistance Services drafted and executed in accordance with A.I.D. contracting regulations and procedures.

d. Covenants

The cooperating country shall covenant that A.I.D. will be able to brief and debrief consultants, participants and invitational travellers financed under the Project Agreement and will be furnished copies of all reports produced by such person.


Bastiaan Schouten
Acting Mission Director
April 22, 1983

Clearance: RLA: Jclyne 4-6-83 copy signed; 4-21-83 modified per Telcon w/Joan
LO:JSilver (in draft) Silver
CONT: GFLatham (in draft)
GDD: TMCKee (in draft)
PO: OLustig (in draft)

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ACRONYMS

ADP	-	Automated Data Processing
AID	-	Agency for International Development
AID/LAC/P	-	Agency for International Development/ Bureau for Latin America, the Caribbean and Panama
AID/W	-	Agency for International Development/Washington, D. C.
CBI	-	Caribbean Basin Initiative
CCSS	-	Costa Rican Social Security Administration
CDSS	-	Country Development Strategy Statement
CINDE	-	Costa Rican Coalition for Development Initiatives
CODESA	-	Costa Rican Development Corporation
COFISA	-	Costa Rican Corporation for Industrial Financing
CR	-	Costa Rica
DAEC	-	Development Assistance Executive Committee
EFF	-	Extended Financing Facility
ESF	-	Economic Support Funds
FAA	-	Foreign Assistance Act
FX	-	Foreign Exchange
GDP	-	Gross Domestic Product
GNP	-	Gross National Product
GOCR	-	Government of Costa Rica
IBRD	-	International Bank for Reconstruction and Development
IMF	-	International Monetary Fund
LC	-	Local Currency
MIDEPLAN	-	Ministry of Planning
OMB	-	Office of Management and Budget
OYB	-	Operating Year Budget

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PAAD	-	Program Assistance Approval Document
PACD	-	Project Assistance Completion Date
PD	-	Policy Determination
PD & S	-	Program Development and Support
PID	-	Project Identification Document
PIO/C	-	Project Implementation Order/Commodities
PIO/P	-	Project Implementation Order/Participants
PIO/T	-	Project Implementation Order/Technical Services
PPAI	-	Policy, Planning and Administrative Improvement Project
SER/DM	-	Office of Data Management (AID)
USAID	-	United States Agency for International Development
USAID/GDD	-	United States Agency for International Development General Development Division
USAID/PSO	-	United States Agency for International Development Private Sector Office

VI

Project Committee:

USAID/Costa Rica

Joan Silver - Chairman
Chief, Project Development Office

William Phelps
Chief, Private Sector Office

Thomas McKee
Chief, General Development Division

Owen Lustig
Chief, Program Office

G. Franklin Latham
Controller

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- G. Costa Rica CBI Implementation Plan

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I. PROJECT SUMMARY

Costa Rica is experiencing a severe economic crisis. Real GDP declined 4.6% in 1981, at least 5.9% in 1982 and a further decline of up to 2.5% has been predicted for 1983. Unemployment increased from 5.9% in July of 1980 to 9.4%; inflation reached the previously unknown level of 82% in 1983 and average real wages declined by 36% in the last two years.

Recent conjunctural problems such as deterioration of terms of trade, economic recession in the industrialized countries, and high interest rates in the international financial markets, among others, coupled with past economic policy, came on top of some deep structural problems in the Costa Rican economy which had accumulated over over a long period of time.

The GOCR (Government of Costa Rica) has taken some steps to achieve stability, and to pursue the reestablishment of economic growth, including signing a Stand-by Arrangement with the IMF, and is moving to improve economic planning and fiscal administration and to improve the climate and incentives to stimulate production and exporting. In pursuit of these objectives, it has sought the assistance of the U.S. in providing both financial resources required to stabilize the balance of payments and to relieve internal credit constraints, and technical assistance and related inputs to help in restructuring the economy, including improving private sector performance and GOCR administrative and managerial performance. It is to this latter area, technical assistance and related inputs, that this project is addressed. Its purpose is:

to make inputs to policy formulation, planning, and design and implementation of management and administrative systems, which are required to achieve the goals and objectives of the Caribbean Basin Initiative (CBI) Implementation Plan for Costa Rica.

The Costa Rica CBI Plan has as its goals: (1) the reestablishment of dynamic growth in the Costa Rican economy; and (2) the basic reorientation of the Costa Rican economy to one in which the industrial sector contributes to export led growth. These CBI goals are the overall goals of this project.

The Costa Rican CBI Plan's five strategic objectives are:

- Economic Stabilization and Recovery
- Strengthening of the Financial System
- Expansion of Exports and Investments
- Improved Public-Private Sector Coordination
- Improved Policy Formulation and Administrative Reform

These objectives are the project subgoals.

The detailed project description in Section III includes a list of illustrative activities which may be funded in three categories. Activities have not been fully preselected, although planning on some probable activities is more advanced than for others. Criteria and procedures have been established for approving activities and the project has been designed so as to provide the Costa Rican public and private sectors and the A.I.D. Mission with the resources and flexibility required to attack problems, and to respond to specific needs as they arise within certain key areas critical to attaining the CBI goals and objectives. This approach reflects the fact that the situation in Costa Rica with respect to economic policy decisions, planning, and administrative and managerial reform is very fluid, and will remain so at least over the next three years as new information presents itself, opportunities arise or decline, and attitudes shift. Activities to be funded will be of a short or medium-term nature, in the following areas.

Economic Policy Formulation

Activities in this area will consist of various studies and assessments aimed at providing the required information and recommendations, and activities required to generate awareness of problems and to disseminate findings through media, through professional and educational avenues, or through informal channels. The intent of such work is to provide the information and analyses required to establish sound economic/financial policy and plans, and to manage this in an effective manner.

Some of the activities being considered include: to assist CODESA, the state-owned development corporation, to divest itself of some enterprises and to make others more efficient; to assess Costa Rica's foreign exchange policy; to review Costa Rica's competitiveness for exporting; to review programs, policies and procedures for allocating Costa Rica's resources and their efficiency; and to assess the future impact on the Costa Rican economy of increased indebtedness resulting from current assistance.

Private Sector Performance

Activities that will be undertaken in this category address the special problems involved in stimulating and facilitating improved and expanded performance of the Costa Rican private sector -particularly with respect to increasing exports and investments. Many of these activities may also involve efforts to change economic policy, or to bring about administrative managerial improvements within the GOCR as these relate to the private sector's performance .

Examples of activities being considered include: to assist the GOCR to develop and implement a strategy for increasing investments in and exports from Costa Rica; to assist in developing a one-stop investment-export center in Costa Rica to promote and facilitate these activities; to assist in the establishment of free zones; to carry-out surveys/case studies in the private sector to examine impediments to and incentives required for exporting.

Administrative and Managerial Improvement

Activities in this category deal with administrative and managerial improvements in the public sector which would improve its ability to increase revenues, and cut costs. Examples of activities which may be funded include: assistance in improving collection of direct taxes; assistance in improving customs administration; assistance to the Central Bank in establishing an automated data processing system (ADP) required to monitor both bank operations and key financial/economic policy data; assistance to the Caja Costarricense de Seguridad Social (CCSS) in improving its procurement, accounting and financial systems.

The project's resources will total of \$6.0 million, of which A.I.D. will provide a grant of \$4.5 million and the GOCR and the Costa Rican private sector will provide a minimum counterpart equivalent to \$1.5 million, largely through contributions in kind. A.I.D. assistance is planned to be obligated over a two year period, FY's 1983-1984, the PACD is planned to be September 30, 1986. A.I.D.'s grant will finance primarily technical assistance, with some limited training, invitational travel, and equipment as required to support the technical assistance efforts. Benefits of the project would be equal to A.I.D.'s investment of \$4.5 million by the end of 1987, if Costa Rica has attained a net increase of 2.3% in real GDP during the intervening five years, 1982-1987, which is to say, an average, annual compound growth rate for real GDP of 0.46% per year.

The A.I.D. grant will be signed with the Ministry of Planning (MIDEPLAN), which will be the primary point of coordination with A.I.D. Other GOCR Ministries and Agencies also expected to have direct project responsibilities include the Ministry of Finance, the Central Bank, the Minister for Exports and Investment, and the CCSS, all of which will countersign the project agreement. The project will provide at least \$600,000 to the Coalición Costarricense de Iniciativas de Desarrollo (CINDE) for the foreign exchange costs of the project activities to the carried out directly through the private sector.

Each individual project activity will have its own implementation schedule and finite budget which will be detailed in the project sub-obligating documents.

II. BACKGROUND AND STRATEGY

Costa Rica is experiencing its most serious economic crisis in many decades.

Problems of a deep structural nature that have been accumulating for years, and more recent conjunctural elements, emerged simultaneously, producing serious internal and external economic imbalances.

In 1982 the economy continued to deteriorate. Preliminary estimates show a further decline in real GDP of at least 5.9% in 1982; the annual rate of inflation, as measured by the consumer's price index, reached 82%.

For 1983, expectations for stabilizing the economy are not very promising. Even allowing for massive foreign assistance and adherence to the terms of the IMF Agreement, RO AP's Chief Economist is forecasting another decline in GDP in the range of 2-3% in real terms, from the already depressed 1982 and 1981 levels.

Costa Rica's overall balance of payments deficit is estimated at \$1,280 million, and after taking into account a successful rescheduling of principal payments on debt arrearages of the public sector external debt and the proposed A.I.D., IMF and IBRD economic assistance, the remaining unfinanced gap is expected to be as much as \$329 million. The rate of price inflation is estimated to decrease from a previous 82% to a 50-55% level.^{1/}

Costa Rica's economic problems have deep structural roots, and the strategy required for long term growth requires reorientation of the economy to new classes of exports and new markets, and a new approach to public sector management in order to control the expansion and the huge deficits which have both fired inflation and sapped the productive, private sector of resources.

^{1/} Recent studies which document the economic situation in Costa Rica include: Clarence Zuvekas, Jr., Costa Rica: A Review of Macro-Economic Conditions, with Projections to 1985, September 12, 1981; Academia de Centroamérica, Costa Rica: Una Economía en Crisis, December 1981; Clark Joel's macro-economic assessments of February 1982 (for CDSS) and October 19, 1982; Academia de Centroamérica, Costa Rica: Problemas Económicos para la Década de los 80, December 1980; IBRD, Costa Rica: Current Economic Position and Prospects, November 1980; IBRD, Costa Rica: Trade Incentives and Export Diversification, November 1980; University of Costa Rica, Evolución de la Industria en Costa Rica durante el año 1981 y Perspectivas para 1982, December 1981; Costa Rica: Country Development Strategy Statements, FY 1983 and FY 1984; and Costa Rica Private Sector Study, 1982.

The Monge Government's successful negotiations with the IMF, and more recently with the Paris Club, signal a major and responsible step in the right direction. Balance of payments support committed by the IMF and the United States on the basis of the GOCR's signing of the IMF Agreement will help to stabilize the economy. Meanwhile, the GOCR is moving on various fronts to improve economic planning and fiscal administration, and to establish the climate and incentives to stimulate production and marketing, particularly of non-traditional exports. The Government's approach is to increase public and private sector revenues, and to simultaneously reduce public sector costs—including those of the autonomous institutions while attempting to maintain basic, essential public services, and reorienting the economy.

The overall U.S. assistance strategy, as reflected in the Caribbean Basin Initiative Implementation Plan for Costa Rica, also recognizes that Costa Rica's economic problems have deep structural roots, and supports the GOCR in its efforts to reestablish dynamic growth.

The goals of the Caribbean Basin Initiative Plan are as follow:

- o to help reestablish dynamic growth in the Costa Rican economy;
- o to assist in the reorientation of the Costa Rican economy from its present industrial import substitution bias, to one in which the industrial sector contributes to export led growth.

The five principal strategic objectives of the Caribbean Basin Initiative Strategy for Costa Rica are stated below:

- Economic Stabilization and Recovery--to relieve Costa Rica's economic crisis by improving its balance of payments situation by: alleviating the shortages of imported goods required for production; increasing credit available to the productive private sector; and restoring international confidence in Costa Rica and its currency. The program will be coordinated with, and support the economic stabilization and recovery aims of the present IMF Stand-by Agreement, as well as a planned subsequent IMF Extended Financing Facility (EFF) Program.
- Strengthening of the Financial System -to encourage the further development of private banks and other private financial entities in Costa Rica, in order to expand and improve service to the productive private sector beyond that currently available through the nationalized banking system.

- Expansion of Exports and Investments -Costa Rica will need to export at a higher level, and on a more diversified basis, if it is to recover its former standard of living and reinitiate long term, dynamic economic growth. The aim of this objective is to increase exports, particularly non-traditional products for non-traditional markets, and to increase foreign and domestic investment in enterprises which engage in such production.
- Improved Public-Private Sector Coordination -to develop improved means of collaboration between the public and private sectors in order to contain the crisis, stabilize the economy, and establish a basis for long term economic growth thru export and investment.
- Improved Policy Formulation and Administrative Reform - establish the attitudes, laws, procedures, and practices which facilitate exports and investments and a more stable and diversified economy. Among the policies which the Mission sees as most desirable are a commitment to a greater role for the private sector in the economy, an exchange rate regime favorable to exports, the reduction of export quotas and controls, decreased incentives for import substitution industries, a broader commitment to free markets in general in order to foster more efficient resource allocation, and monetary and fiscal policies designed to foster greater internal capital formation.

The goals and sub-goals of proposed project, are the goals and objectives of the approved Costa Rica CBI Implementation Plan.

III. PROJECT DESCRIPTION AND RATIONALE

A. Objectives and Rationale

Since July 14, 1982, Costa Rica has signed Agreements with the United States to obtain \$93.735 million in balance of payments support. Another \$50 has been appropriated for FY 1983, and a further \$35 million is planned in FY 83. In addition, the IMF is expected to provide \$92.5 million SDR by the end of CY 1983. Pumping massive financial resources into the economy may assist in achieving short-term stabilization, but recovery and growth require changes in the status quo as defined by the five CBI objectives. Such changes can only be achieved through new economic policies, new plans, improved management and administration of both public and private sector activities. Thus the purpose of this project is:

To make inputs to policy formulation, planning, and the design and implementation of management and administrative systems, which are required to achieve the goals and objectives of the CBI Implementation Plan for Costa Rica.

The situation in Costa Rica with respect to economic policy decisions, planning, and administrative and managerial reform is very fluid, and will remain so over at least the next three years as new information presents itself, opportunities arise or decline, and attitudes shift. This is consistent with a period of re-adjustment. The project has, therefore, been designed to provide the Costa Rican public and private sectors with the resources and flexibility required to attack problems and respond to specific needs as these arise within certain key areas which are critical to attaining the CBI goals and objectives. Assistance will consist primarily of technical assistance. Such assistance will be of both a short-term and a medium-term nature, but primarily the former. Limited short-term training will be provided. Equipment and financial support will be included, on a limited basis, only where required to support technical assistance or training inputs. Funds totalling \$4.5 million will be obligated in FY's 1983-1984, for activities up to the end of FY 1986.

The criteria for selecting activities under the project are that they be critical to establishing and implementing economic policy, plans, and managerial and administrative improvements which support the CBI Implementation Plan referred to above, and that they be activities of a short or medium-term nature.

With respect to implementation, A.I.D. will sign a Project Agreement with the Ministry of Planning (MIDEPLAN), which will also be cosigned by the Costa Rican entities which are anticipated to have direct responsibility for implementing project activities. These entities include the CCSS, the Ministry of Finance, the Central Bank, the Minister (without portfolio) for Exports and Investment, and CINDE. The Project Agreement will provide for A.I.D. to implement selected activities, where this is appropriate. Elaboration of specific project activities and implementation responsibilities will occur in the PIO/T's, PIO/P's and PIO/C's and in Memoranda of Understanding prepared under the project and signed by the entities directly implementing each particular activity; Implementation Letters may also be used to specify the scope and objectives of a given project activity, and the related implementation requirements and responsibilities.

The grant will finance a wide range of activities in three, inter-related areas: Economic Policy Formulation; Private Sector Performance; and Administrative and Managerial Improvement; including a number of special activities to be undertaken directly by A.I.D.

This project will provide assistance in a quick-response manner as priority policy-influencing opportunities arise. It is therefore not possible to fully preselect or define the specific activities to be undertaken. However, some activities have been agreed upon, subject to final negotiation and A.I.D.'s formal approval, and numerous probable activities have been identified. Some, but not all of these will eventually be undertaken, and others will emerge over the lifetime of the project. The following list of activities and summary descriptions should therefore be regarded as indicative but illustrative.

B. Description of Proposed Activities

1. Economic Policy Formulation

Costa Rica's ability to recover from the current crisis and to make the structural changes required to reestablish and maintain dynamic growth is dependent to a significant extent, upon the availability of good economic and financial information and analyses. Such information is required not only to make rational, consistent decisions, but to assure the understanding and support of key policy makers in taking such decisions, and in implementing them over time.

It is worth noting that Costa Rica is a functioning democracy, and that as such, information which is both convincing and widely disseminated is required to focus the attention and to draw the support of government officials, legislators, and the public in obtaining decisions and commitment.

The project will support Costa Rica in obtaining and disseminating such information and analyses; as may be required to establish sound economic/financial policy and plans, and to manage this in an effective manner.

Activities in this area will consist of various studies and assessments aimed at providing the information and recommendations, and activities required to generate awareness of policy problems and to disseminate findings through media, through professional and educational avenues, or through informal channels.

Activities thus far agreed upon include:

- o Assistance to CODESA in restructuring its operations through the sale of some enterprises, and through closing or making others more efficient. Divestiture would require identifying and valuing businesses to be sold, and establishing the manner of and procedures for conducting the sale.

- o Assessment of Costa Rica's competitiveness in the specific area of maquila (assembly industries).

Potential activities include:

- o Assessment of present foreign exchange policy, what factors determine rate(s), the effect of current policy and rates in terms of achieving the objectives stated in the CBI; necessary adjustments.
- o Assessment of Costa Rica's overall competitiveness for exporting, in what products, and to what markets, and factors to be capitalized upon or to be deemphasized in planning and investing for exports.
- o Assessment of fiscal and other incentives for foreign investors; whether these result in transferring tax incidence from Costa Rica to U.S. and other countries; and assistance as may be required to restructure these.
- o Review the role and performance of private financial institutions.
- o Review the Central Bank's credit program to determine whether and how credit resources are most effectively allocated to support GOCR stabilization and development strategy.
- o Review other Costa Rican programs, procedures, laws and regulations which affect resource allocation, and assess the extent to which stabilization and development are promoted or hindered by them.
- o Assess the future impact on the Costa Rican economy of increased indebtedness from current assistance, and implications for donor assistance policies.
- o Selected seminars, information packages, meetings, formal and informal conferences, media activities to disseminate key findings and recommendations in support of policy decisions and plans.

2. Private Sector Performance

The following illustrative activities address the special problems involved in stimulating and facilitating improved and expanded performance of the Costa Rican private sector-- particularly with respect to increasing exports and investments. Many of the activities categorized hereunder also involve efforts to change economic policy,

or to bring about administrative or managerial improvements in or to private sector entities or to GOCR entities which affect the private sector's performance. They are distinguished from the other two categories by their private sector focus and greater degree of specificity.

The following activity has been agreed upon:

- o Provide assistance to potential investors and exporters in the private sector, in carrying out feasibility studies, marketing studies, production and productivity studies, and in developing other specific information, plans, and improvements which would serve as a basis for new or increased exports, production and investments.

Potential activities include:

- o Assist the Government of Costa Rica and the new Minister for Exports and Investment, to develop, a GOCR strategy for increasing investments in and exports from Costa Rica.
- o Provide assistance to the newly appointed Minister for Exports and Investment in defining his role and responsibilities, and in undertaking initial activities.
- o Assist in developing the functions of, and establishing a one-stop investment-export center in Costa Rica, with offices/agents abroad as appropriate, which would have the functions of promoting and facilitating exports and investments; client groups would include investors, buyers, and producers.
- o Assist in the establishment of the free trade concept with respect to production for export; review the existing legislation and the existing free trade structure in Costa Rica, and develop and implement an action plan to improve free trade effectiveness.
- o Examine and make recommendations concerning incentives and impediments to exporting from Costa Rica from the stand point of individual businesses; carry out surveys/case studies in the private sector which examine the experience and perceptions of businesses and their cost structures, including both businesses which are exporters and those which have ceased to export.

C. Administrative and Managerial Improvement

Illustrative activities under this heading deal with administrative and managerial improvements in the public sector which would improve the performance of public sector operations, and would also help to increase revenues and cut costs. Activities to be funded would be of a limited scope, and would focus on a specific problem or several problems which can be addressed in the short or medium term. Examples of activities which may be funded include the following:

Activities which have been thus far agreed to include:

- o Assistance to the Ministry of Finance in improving the collection of direct taxes, - including personal and business income taxes, sales, and property taxes; systems to help upgrade organization and management; and procedures, incentives and personnel required to improve the efficiency and effectiveness with which direct taxes are collected.
- o Assistance to the Ministry of Finance in improving organization, procedures, and personnel required to establish adequate control over incoming goods, and to collect duties; current procedures are resulting in illegal entry of goods, and loss of revenue to the GOCR.
- o Assistance to the Central Bank in establishing an automated data processing system required to monitor bank operations and, in particular, key financial and economic information which relates to economic policy, plans, and performance. The Bank has recently acquired new computer hardware, but needs technical assistance and training to develop information requirements based on management and decision-making need, and to install the information and data processing systems.
- o Assistance to the Caja Costarricense de Seguro Social (CCSS) in improving its accounting and financial management functions including auditing; current systems are insufficient to provide control over expenditures or investments, or to serve as a basis for planning. Such inefficiency contributes to the substantial deficits incurred by the CCSS.
- o Assistance to the CCSS in improving procurement procedures and materials management, an area which accounts for some 25% of its expenditures, and in which irrational

procedures and lack of proper controls create substantial inefficiencies. The improvements contemplated complement other A.I.D. assistance to be provided under the Health Supplies Management Project.

- o Assistance of an expert advisor to assist the Ministry of Finance in reviewing and evaluating current budget information of the GOCR.

Potential activities include:

- o Assistance to the Central Bank in training selected staff members in the most up-to-date theories and practices of central banking, including development banking and planning.

IV. PROJECT ANALYSIS

A. Technical Analyses

The need for and appropriateness of the specific types of assistance proposed under this project, have been established as a result of a number of studies by A.I.D., other donors, and Costa Rican organizations, all of which have been aimed at analyzing the causes of the current Costa Rican economic crisis, the prognosis, and the steps required to address the situation. (See footnote No. 1, page 4, plus IMF Article IV Consultative Reports). It is from such analyses that the CBI goals and objectives have been generated, and A.I.D.'s Economic Stabilization and Recovery loans/grants, the IMF Stand-by Arrangement and other donors have served to identify required changes, and the areas in which A.I.D.'s contributions can best be made. The need to provide, in a period of economic restructuring, the capacity to respond in a flexible and timely manner to needs for policy analysis, planning, administrative and managerial improvement, and to selectively implement changes, is self-evident.

B. Administrative Analysis

As indicated previously, various Costa Rican public and private sector entities will be involved in the implementation of project activities. The Ministry of Planning (MIDELPLAN) will have the responsibility for coordinating the various project activities following within the realm of the public sector. This role is consistent with that which it normally plays within the GOCR.

The GOCR commitment to support the activities proposed under the project is indicated by the fact that they have entered into an IMF program, and have established the implementing responsibilities and control required to undertake the activities thus far envisioned. For

example, in order to support efforts to formulate and implement new economic policy and plans, the Government has established a Group composed of Ing. Claudio Volio (Minister of Planning) -Chairman; Lic. Federico Vargas (Minister of Finance); Lic. Carlos Manuel Castillo (President of the Central Bank) and Lic. Rodolfo Silva (Advisor to the President of the Republic for External Finance). This Group will be responsible for all the work connected with the Economic Recovery and Structural Adjustment Program. It has appointed Lic. Carlos Hernández as "Coordinator for the Economic Recovery and Structural Adjustment Program".

Related both to the concern for overall economic policy and planning, and particularly to the need to attract investment and promote exports, President Monge has recently appointed Dr. Mario Carvajal as Minister for Exports and Investment. He has given him personal and total access, and broad reaching responsibilities for developing and coordinating policy and plans among GOCR ministries and agencies, and between the GOCR and the private sector.

For activities already planned, various GOCR entities have already been designated activity managers in anticipation of A.I.D. assistance, and some have formed working committees at the technical level to coordinate with A.I.D.

Prior to the approval of any project-financed activity, the capacity of the implementing entity will be assessed in terms of its ability to provide the necessary level of management, and to process and act on recommendations. In the event that such capacity does not exist in a particular instance, A.I.D. may elect, under the terms of the Project Agreement, to directly implement an activity, such as a study or development of a plan.

With respect to USAID's ability to carry out its responsibilities for implementing the project, a considerable burden will be placed on project officers charged with managing the individual activities, and on procurement and controller staffs. The Mission is currently, critically under-staffed. However, several vacant positions are slated to be filled by late summer and several new direct hire positions will be added. In the meantime, several key activities have already been developed and are ready for approval. In order to respond to the additional work that will be imposed by the project activities, USAID plans to add to the local hire staff to assist in doing procurements.

C. Financial/Economic Analysis

With the exception of some specifically directed and circumscribed efforts at administrative or managerial improvements where cost savings or increased revenues may be calculated, meaningful quantitative analysis of the impact of project activities is precluded by their

nature. Most will consist of efforts which aim at changes in a broad range of policies, plans and procedures affecting economic performance in general, and in particular, the level of exports and investments. Moreover, the project consists of a diverse number of activities, and activities which are interrelated. To establish the discrete benefits of any individual activity in a quantitative manner would be impossible, given the difficulties of assessing these in light of success or failure of related activities, and of attributing complex results to a single activity. It is never-the-less clear that a proper overall economic policy framework of the type which this project will consist in establishing will be worth many times more than the costs of its establishment.

A high-break-even analysis may be the most appropriate to evaluate the cost and benefits of this project. Such an analysis indicates that A.I.D.'s investment would be recouped over a five year period (1982-1987), if Costa Rica obtained a net increase of 2.3% in real GDP, which is equal to an average, annual compound growth-rate in real GDP of 0.46%, less than half a percent. The point is that only a small, positive change in real GDP is required for the project to break even, and that the likelihood of achieving this, and much more in the future, more than justifies the level of investment and the risk involved.

D. Social Soundness Analysis

This project does not affect socio-cultural practices, nor conversely, is implementation of the project activities subject to difficulties resulting from any new, socio-cultural introductions.

The bulk of the project assistance will be in the form of technical assistance for studies, assessments, management and administrative improvements. Such activities will occur primarily at the level of Costa Rican agencies -including the Central Bank and private enterprise, in cooperation with international agencies and potential investors.

The impact of these activities, if successful in achieving their objectives, will be critical to the average Costa Rican. In 1982 real per capita GDP declined by 7% and a higher decline is estimated for 1983, unemployment increased from 5.9% as of July 1980 to 9.4% in 1982. The impoverishment of the average Costa Rican family is evident, the purchasing power of the colon dropped 67% since 1980 and real average wages declined 36% in the same period. The lower income group, which has no savings, investments, or alternative income has suffered most in its standard of living. Stabilizing the economy and re-establishing dynamic growth -particularly by preserving and creating jobs in the private sector and lowering the rate of increase in cost of living is the only means to alleviate these problems which ultimately

have destabilizing social effects in terms of health, education and family cohesiveness.

V. COST ESTIMATES AND FINANCIAL PLAN

A. Funding Level and Sources

Total life of project cost will be \$6.0 million, of which A.I.D. will provide \$4.5 million in grant funds, subject to the availability of funds, and the host country will provide the balance. Of the \$4.5 million which A.I.D. will provide, \$3.5 million will be funded from Section 106 of the FAA and \$1.0 million will be funded from Section 105. At a minimum, GOCR counterpart funds in the amount of \$1.5 million in local currency equivalent will be provided in-kind, primarily in the form of personnel and overhead costs, plus limited in-country training and travel costs for GOCR personnel, and in-country travel for some technical advisors/consultants.

B. Financial Plan

Given that activities described in this PP are planned and illustrative, the financial plan must also be planned and illustrative. An estimation of the cost of completing all of the activities described herein indicates that this would more than exceed the \$4.5 million to be obligated under the project. A list of the estimated cost of carrying out the activities in Section III is contained in Table I. Activities will, however, be undertaken on a selective basis, up to the amount of funds available. The Mission believes that this amount is sufficient to make a significant contribution to the project goals, but that as the list of estimated costs indicates, it will not be in excess of needs.

TABLE I
ILLUSTRATIVE FINANCIAL PLAN
(Dollars in \$000)

	AID	GOCR	TOTAL
<u>ECONOMIC POLICY FORMULATION</u>			
Policy Analysis Studies	UND	UND	UND
Independent Activities for Disseminating Results	UND	UND	UND
Earmarked Level	<u>\$ 400</u>	<u>\$ 125</u>	<u>\$ 525</u>
<u>PRIVATE SECTOR PERFORMANCE</u>			
Export Strategy and Planning	UND	UND	UND
Assistance to Minister for Exports and Investments	UND	UND	UND
One-Stop Export-Investment Center	UND	UND	UND
Free Trade for Export Production	UND	UND	UND
Business Case Studies	UND	UND	UND
Feasibility, Marketing, Production and Productivity Studies	600	-0-	600
Earmarked Level	<u>\$1,350</u>	<u>\$ 550</u>	<u>\$1,900</u>
<u>ADMINISTRATIVE AND MANAGERIAL IMP.</u>			
Tax Administration	670	233	903
Customs Administration	310	65	375
CCSS Budgeting, Procurement/ Materials Management	<u>1,000</u>	<u>365</u>	<u>1,365</u>
Central Bank Information and Data Processing Systems	UND	UND	UND
Earmarked Level	<u>\$2,450</u>	<u>\$ 825</u>	<u>\$3,275</u>
<u>SPECIAL ACTIVITIES (AID)</u>			
Earmarked Level	<u>\$ 300</u>	<u>UND</u>	<u>\$ 300</u>
TOTAL OF EARMARKED LEVELS	<u>\$4,500</u>	<u>\$1,500</u>	<u>\$6,000</u>
Total of Planned Activities	\$2,880	\$1,500	\$4,380
Subsequent Selections	1,620	UND	1,620
Total Project Funding	<u>\$4,500</u>	<u>\$1,500</u>	<u>\$6,000</u>

TABLE II

A. ESTIMATED COSTS OF PLANNED ACTIVITIES
(Final levels subject to Mutual negotiation)

<u>Private Sector Performance</u>	<u>AID</u>	<u>HOST COUNTRY (LC)</u>
<u>Feasibility Studies, Marketing, Production and Productivity Studies</u>		
Technical Assistance (CINDE)	<u>\$600,000</u>	<u>-0-</u>
Sub-Total	<u>\$600,000</u>	<u>-0-</u>
<u>Administrative and Managerial Improvement</u>		
<u>Tax Administration</u>		
Technical Assistance	\$620,000	
Training	35,000	
Equipment	15,000	
Personnel		\$213,000
Logistic Support		<u>20,000</u>
	<u>\$670,000</u>	<u>\$233,000</u>
<u>Customs Administration</u>		
Technical Assistance	\$270,000	
Training	40,000	
Personnel		\$ 45,000
Logistic Support		<u>20,000</u>
	<u>\$310,000</u>	<u>\$ 65,000</u>

<u>CCSS Budget, and Procurement and Materials Management</u>	<u>AID</u>	<u>HOST COUNTRY (LC)</u>
Technical Assistance	\$650,000	
Training	150,000	\$ 90,000
Equipment	200,000	
Personnel		175,000
Logistic Support		<u>100,000</u>
	<u>\$1,000,000</u>	<u>\$365,000</u>
Sub-Total	<u>\$1,980,000</u>	<u>\$663,000</u>
<u>TOTAL ESTIMATED COST OF PLANNED ACTIVITIES</u>	<u>\$2,580,000</u>	<u>\$663,000</u>

B. ESTIMATED COSTS OF SUBSEQUENT SELECTIONS
(Selections Subject to availability of funding)

<u>Economic Policy Formulation</u>	<u>AID</u>	<u>HOST COUNTRY (LC)</u>
<u>Policy Analyses and Dissemination</u>		
Technical Assistance	\$310,000	
Invitational Travel/Training	40,000	
Personnel		\$ 90,000
Logistic Support	<u>50,000</u>	<u>35,000</u>
Sub-Total	<u>\$400,000</u>	<u>\$125,000</u>
<u>Private Sector Performance</u>		
<u>Export-Strategy and Planning</u>		
Technical Assistance	\$280,000	
Training	20,000	
Personnel		\$ 40,000
Logistic Support		<u>15,000</u>
	<u>\$300,000</u>	<u>\$ 55,000</u>

	<u>AID</u>	<u>HOST COUNTRY (LC)</u>
<u>Assistance to Minister of Exports and Investment</u>		
Technical Assistance	\$170,000	
Training	20,000	
Invitational Travel	10,000	
Personnel		\$100,000
Logistic Support		<u>20,000</u>
	<u>\$200,000</u>	<u>\$120,000</u>
 <u>One-Stop Export-Investment Center</u>		
Technical Assistance	\$320,000	
Training	60,000	
Invitational Travel	20,000	
Personnel		\$300,000
Equipment		400,000
Logistic Support		<u>30,000</u>
	<u>\$400,000</u>	<u>\$730,000</u>
 <u>Business Case Studies</u>		
Technical Assistance	<u>\$150,000</u>	-0-
 <u>Free Trade for Export Production</u>		
Technical Assistance	\$250,000	
Training	20,000	
Invitational Travel	30,000	
Personnel		\$ 80,000
Equipment		100,000
Logistic Support		<u>15,000</u>
	<u>\$300,000</u>	<u>\$195,000</u>
Sub-Total	<u>\$1,350,000</u>	<u>\$1,225,000</u>
 <u>Administrative and Managerial Improvement</u>		
 <u>Central Bank Information and Data Processing Systems</u>		
Technical Assistance	\$1,450,000	
Equipment	50,000	\$500,000
Personnel		400,000
Logistic Support		<u>50,000</u>
	<u>\$1,500,000</u>	<u>\$950,000</u>
Sub-Total	<u>\$1,500,000</u>	<u>\$ 950,000</u>

	<u>AID</u>	<u>HOST COUNTRY (LC)</u>
<u>Special Activities (A.I.D.)</u>		
Technical existence	\$ <u>300,000</u>	<u>-0-</u>
Sub-Total	\$ <u>300,000</u>	<u>-0-</u>
<u>TOTAL ESTIMATED COSTS OF SUBSEQUENT SELECTIONS</u>	\$3,550,000	\$2,175,000

Final selection subject to availability of funds.. USAID will be exploring possible avenue for additional funding sources from international donors, private sector organizations, etc.

C. Disbursement of A.I.D. Funds

A variety of standard A.I.D. disbursement procedures will be employed, depending upon the complexity of each of the approved activities. A.I.D. direct disbursement mechanisms will be normal under the project and controlled at the Mission level.

VI. IMPLEMENTATION ARRANGEMENTS

A. Implementation Schedule

An initial group of activities to be carried out under the project will begin upon signing of the Project Agreement, and completion of subordinate agreements and/or sub-obligating documents as specified in Section VI B, below. New activities will be started up until shortly before the PACD (September 30, 1986), while those started earlier will terminate along the way. Activities will be of short or medium duration, most requiring less than six months, although it is envisioned that some of these which involve establishing new capacity or administrative/managerial improvements in the GOCR or the private sector, may require assistance for 18-24 months.

Each individual activity will, have its own implementation schedule which will be detailed in the approval documentation pertaining to it. Examples of detailed Implementation Schedules are currently available for three, medium term activities which have been identified for assistance pending approval of this project^{1/}. These include Improvements to Tax Administration, and to Customs Administration; Improvements to CCSS Accounting and Financial Management, and, CCSS Procurement and Supplies Management.

B. Implementation Responsibilities

The \$4.5 million dollar grant will be obligated by means of a Grant Agreement. The Agreement will be signed with the Ministry of Planning which will be the primary point of coordination with A.I.D. Other GOCR ministries and Agencies expected to have direct responsibility for recommending and implementing activities include the Ministry of Finance, the Central Bank, the Minister for Exports and Investment, the CCSS, and CINDE, all of which will countersign the Project Agreement. The Project Agreement will also designate authorized representatives for various activities currently by pending approval.

Activities to be implemented under GOCR Ministries/Agencies will be approved by A.I.D., and the authorized representative(s) of the implementing unit(s). Such approval may be made by way of Memoranda of Understanding, countersigned Implementation

^{1/} See Annex F.1.a. thru H.1.c.

Letters, or by A.I.D. and the GOCR signing PIO/T's, PIO/G's or PIO/P's for the activity.

Activities to be implemented outside the authority of a GOCR Ministry or Agency - as in the case of some private sector activities and some economic studies - will be approved by A.I.D. only, under authority to be included in the Project Agreement, and via Memorandum of Understanding or letter. The exception to this latter requirement will include activities implemented by the Coalición Costarricense de Iniciativas de Desarrollo (CINDE); this organization may conclude agreements directly with recipient organizations according to the terms of its agreement with A.I.D.

Objectives, budget, implementation requirements and responsibilities for each activity will be specified in the approval documentation for this. Technical analyses for the proposed activities with the CCSS, the Ministry of Finance/Office of Direct Taxation, and the Ministry of Finance/Office of Customs Administration have been prepared^{1/}. Preliminary terms of reference for a study on Costa Rican competitiveness in assembly industries is also currently available in the USAID files^{2/}.

A USAID Project Implementation Committee which will (a) periodically review existing and proposed resource allocation under the project, including any need to make major changes in this; (b) review such obligating documents, and clear and/or make recommendations to the Mission Director according to normal Mission procedures.

C. Reports and Monitoring

Monitoring of overall progress in generating, completing and making disbursements for activities, and their appropriateness to achieving the project goals will be the responsibility of the USAID Project Development Office. This monitoring will be based on reports of individual activity managers as part of the quarterly review process, and discussions in the Project Implementation Committee.

Mission monitoring of individual activities will be handled by project officers designated as activity managers specifically for these, according to functional area. As an activity is approved by the Mission, monitoring requirements will be developed jointly with the contractor and the implementing GOCR Ministry/Agency, or other entity.

1/ See Annex F.2.a through F.2.c.

2/ See Annex F.3.

In all cases, technical assistance advisors/consultants will be required to present regular progress reports. These reports will assess progress in terms of the implementation schedule agreed upon, and objectives set for the particular activity.

Activity managers will be in regular contact with contractors and recipient entities, and to review progress on a regular basis, both formally and informally.

D. Procurement

Experience with host country contracting has shown that the GOCR does not have the capacity to do this in a timely manner. Accordingly, and in accordance with the Project Authorization, procurements - except on an exceptional basis where it is determined sufficient capability exists for a particular action - will be done by the Mission or AID/W.

With the exception of certain possible TCN PSCS, all procurements will be from the U.S., or from Central American Common market countries. In such instances proper exception to normal procurement will be made.

VII. EVALUATION ARRANGEMENTS

Evaluation of the overall project will focus on the purpose level, with the following emphases:

- To what extent have activities selected been within the specified criteria, and appropriate to achieving project goals;
- To what extent have activities been performed in a timely and effective manner;
- To what extent have results/ recommendations been communicated to decision-makers and responsible managers;

Such evaluation will be carried out on a continuing basis, based on reporting received, and reported in a PES at the end of the project, or earlier as appropriate.

With respect to evaluating the impact of the project on the CBI goals and objectives, both the scale of the evaluation that would be required, and the difficulty in attributing results make such an evaluation unfeasible. This could effectively be done only in the context of a comprehensive, country program level evaluation, taking into consideration activities of other donors and a wide variety of outside conditions. Moreover, attribution to this particular project would be difficult not only given these other donor activities and outside

concerns, but in that project activities will both complement the sizeable resources available under the ESF loans/grants, as well as selected other project activities. For example, an administrative improvement proposed for the CCSS procurement and materials management functions would complement the proposed Health Supplies Management Project.

Within the context of individual activities, the Mission will, on a selected basis, attempt to determine:

- To what extent decisions have been made to act upon findings, recommendations, or plans developed under the particular activity;
- To what extent actions were carried through, and any performance objectives achieved, e.g. as in the case of administrative or managerial improvement activities.

Plans and timing for evaluating an individual component will be developed jointly with the responsible implementing entity(s) and the contractor as appropriate.

VIII. CONDITIONS AND COVENANTS

A. Conditions

1. Prior to any disbursement, or the issuance of any commitment document under the Project Agreement to finance any specific activity, the cooperating country shall furnish in form and substance satisfactory to A.I.D., a complete description of such activity which shall include, but not be limited to its budget and implementation schedule.

2. Prior to any disbursement, or the issuance of any commitment document under the Project Agreement to finance any implementing entity for an approved activity under the project, the cooperating country shall furnish in form and substance satisfactory to A.I.D., a statement of the name and person holding office in said entity and legally empowered to act for said entity with reference to this Agreement.

3. Prior to any disbursement, or the issuance of any commitment document under the Project Agreement to finance the Customs Administration activity under the Ministry of Finance, the Cooperating Country, (in the event that A.I.D. waives its right to contract directly the technical assistance services required) shall furnish in form and substance satisfactory to A.I.D., a contract for long-term technical assistance services drafted and executed in accordance with A.I.D. contracting regulations and procedures.

B. Covenant

A.I.D. will, upon request, be able to brief and debrief consultants, participants and invitational travellers financed under the Project, and will be furnished copies of all reports produced by such persons.

ANNEX A

STATE CABLE No. 165185

AVAILABLE IN USAID CLASSIFIED FILES

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 83 to FY 84
Total U.S. Funding \$4.5 million
Date Prepared: 3-18-83

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

PAGE 1

Project Title & Number: POLICY, PLANNING & ADMINISTRATIVE IMPROVEMENT (PPAI)

515-0190

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <p>Reestablish dynamic growth in the Costa Rican economy; and</p> <p>Reorient the Costa Rican economy from its present industrial import substitution bias, to one in which the industrial sector contributes to export-led growth.</p>	<p>Measures of Goal Achievement (A-2)</p> <ul style="list-style-type: none"> - GNP growth reestablished at 46 % per annum - Industrial production and growth rate as required to sustain GNP - Balance of payments in order to sustain GNP - Public sector budget rational and controlled, and (deficits -if any- are manageable, costs have declined, revenues increased, equity not distorted 	<p>(A-3)</p> <ul style="list-style-type: none"> - National income, production statistics - IMF data - GOCR public record on budget and fiscal matters 	<p>Assumptions for achieving goal targets: (A-4)</p> <ul style="list-style-type: none"> o Political stability in the region and in CR o World and regional economic conditions remain stable or improve o Costa Rican commitment to responsible economic/fiscal policies is maintained
<p><u>UBGOALS (CBI OBJECTIVES)</u></p> <p>Economic Stabilization & Recovery</p>	<ul style="list-style-type: none"> - Balance of payments improved - Imported goods for production available as required - Increased credit available to private sector - International confidence in Costa Rica and its currency reestablished 	<ul style="list-style-type: none"> - Project evaluation 	<ul style="list-style-type: none"> o Decision-makers and implementors (including the public and investors) respond rationally to information provided o Subgoals are viable o Policies, plans, and improvements identified and implemented under the project are viable, and are valid for achieving the sub-goals o Support of AID and other donors through other projects provides sufficient assistance and encouragement to implement necessary activities defined by this project.

PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

POLICY, PLANNING & ADMINISTRATIVE
IMPROVEMENT (PPAI) 515-0190

(INSTRUCTION: THIS IS AN OPTIONAL FORM WHICH CAN BE USED AS AN AID TO ORGANIZING DATA FOR THE PAR REPORT. IT NEED NOT BE RETAINED OR SUBMITTED.)

Life of Project:
From FY 83 to FY 84
Total U.S. Funding \$4.5 million
Date Prepared: 3-18-83

PAGE 1

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Program or Sector Goal: The broader objective to which this project contributes: (A-1)</p> <ul style="list-style-type: none"> o Strengthened financial system o Expansion of exports and investments o Improved public-private sector coordination o Improved Policy Formulation and Administrative Reform 	<p>Measures of Goal Achievement: (A-2)</p> <ul style="list-style-type: none"> - Private banks and other private financial institutions play a larger role in the economy - Expanded and improved services to the productive private sector - Exports increasing - non traditional exports increasing - nontraditional markets expanding - Foreign and domestic investment expanding particularly in export businesses - new and improved channels of communication between public and private sectors. - more collaboration on policy, planning systems and procedures which relate to productive, private sector. - Positive changes in attitudes, laws, procedures and practices which facilitate exports and investment 	<p>(A-3)</p>	<p>Assumptions for achieving goal targets: (A-4)</p> <ul style="list-style-type: none"> o Policies, plans and improvements identified by AID, GOCR and other donors are implementing successfully

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Date of Project
From FY 83 to FY 84
Total U.S. Funding \$4.5 million
Date Prepared 3-18-83

POLICY, PLANNING & ADMINISTRATIVE

Project Title & Number IMPROVEMENT (PPAI) 515-0190

NARRATIVE SUMMARY	EFFECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Purpose: B 1)</p> <p>Make inputs to policy formulation, planning and design and implementation of management and administrative systems which are required to achieve objectives of the CBI Implementation Plan for Costa Rica.</p>	<p>Conditions that will indicate purpose has been achieved: End of Project status: B-2)</p> <ul style="list-style-type: none"> - Completed policy analysis disseminated, and reviewed by decision makers and implementors - Completed plans for GOCR activities in support of policies are disseminated to and reviewed by decision-makers and implementors (including the public and investors) - Investment opportunities identified, feasibility studies and plans disseminated to and reviewed by investors - Selected policies, plans, and management and administrative improvements are successfully implemented by GOCR, with AID financed assistance. - Selected investments and production/marketing opportunities are undertaken by private business, with AID financed assistance 	<p>H 3)</p> <ul style="list-style-type: none"> o Advisors' reports o Median coverage and reports o Advisors' reports o Media coverage and reports o Advisors' reports o GOCR implementing agency reports o Advisors' reports o AID/GOCR evaluations o GOCR implementing agency reports o Business records 	<p>Assumptions for achieving purpose: B-4)</p> <p>Project efforts to focus attention on, and create appreciation of results of studies, planning efforts, administrative and managerial assessment, are successful.</p> <p>Rational decisions taken to implement selected activities during project life-time -by GOCR, by private investors/producers.</p> <p>Outside circumstances do not prevent successful implementation of selected activities based on policies, plans, improvements identified as supporting CBI.</p>

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PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK

Life of Project:
From FY 83 to FY 84
Total U. S. Funding: \$4.5 million
Date Prepared: 3-18-83

POLICY, PLANNING & ADMINISTRATIVE

Project Title & Number: IMPROVEMENT (PPAI) 515-0190

PAGE 3

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Outputs (C 1):</p> <p><u>ECONOMIC POLICY FORMULATION</u></p> <ul style="list-style-type: none"> o Studies/assessments completed, with recommendations as appropriate. o Seminars, missions, information packages developed and completed. <p><u>PRIVATE SECTOR PERFORMANCE</u></p> <ul style="list-style-type: none"> o Investment and export opportunities identified o Feasibility studies completed o Consultant's/advisor's studies completed on production and productivity improvements o Potential investors/exporters identified. o Activities to inform potential investors/exporters of opportunities developed and completed o GOCR capacity to facilitate export/investment activities improved 	<p>Magnitude of Outputs (C 2):</p> <ul style="list-style-type: none"> o Activities undertaken o Activities undertaken 	<p>(C 3):</p> <ul style="list-style-type: none"> o Completed products o Advisor's/consultants reports o GOCP reports; selected site visits o Reports of advisors/consultants/participants o Documented evidence of materials prepared and activities executed o media coverage reports 	<p>Assumptions for achieving outputs: (C 4)</p> <p>GOCR and Costa Rican private sector awareness of and commitment to solving problems sufficient to get first round of activities going, and to complete these.</p>

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PROJECT DESIGN SUMMARY

POLICY, PLANNING & ADMINISTRATIVE LOGICAL FRAMEWORK
IMPROVEMENT (PPAI) 515-0190

Life of Project:

From FY 83 to FY 84Total U.S. Funding \$4.5 millionDate Prepared: 3-18-83

PAGE 3

Project Title & Number:

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<p>Project Outputs: (C-1)</p> <p>ADMINISTRATIVE IMPROVEMENT</p> <ul style="list-style-type: none"> o Studies on means to increase GOCR revenue/decrease costs completed o Control/incentive systems for improved management and administration developed. o Information/data collection or analysis functions designed as required o Revenue increases in selected GOCR units achieved o Costs decreased in selected GOCR units 	<p>Magnitude of Outputs: (C-2)</p> <ul style="list-style-type: none"> o Improvements made 	<p>(C-3)</p>	<p>Assumptions for achieving outputs: (C-4)</p>

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PROJECT DESIGN SUMMARY

Life of Project: 84
From FY 83 to FY
Total U.S. Funding \$4.5 million
Date Prepared 3-18-83

PROJECT TITLE

POLICY, PLANNING & ADMINISTRATIVE LOGICAL FRAMEWORK

Project Title & Number

IMPROVEMENT (PPAI) 515-0190

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS		MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project inputs: (D-1)	Implementation Target (Type and Quantity) (D-2)		(D-3)	Assumptions for providing inputs: (D-4)
	ILLUSTRATIVE BUDGET (\$000)			
	<u>AID</u>	<u>GOCR</u>		
o Technical assistance	3,370	-	o AID sub-obligating documents	
o Training	325	90	o Approved requests for payment	
o Invitational travel	40	-	o Advisors' participants' reports	
o Equipment	265		o Observation by USAID project managers	
o Other	500	300		
o Personnel	-	810		
	\$ 4,500	1,500		

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5C(2) - PROJECT CHECKLIST

Listed below are statutory criteria applicable generally to projects with FAA funds and project criteria applicable to individual funding sources: Development Assistance (with a subcategory for criteria applicable only to loans); and Economic Support Fund.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE?
HAS STANDARD ITEM CHECKLIST BEEN
REVIEWED FOR THIS PROJECT? Except
as noted below country checklist
in AID/LAC/P-123 is up to date; *
Yes.

A. GENERAL CRITERIA FOR PROJECT

1. Continuing Resolution Unnumbered; FAA
Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations Committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure)?

The committee on appropriations of the Senate and the House were notified of this project through a Congressional Notification which advised them of A.I.D.'s intention to finance the grant at the level assigned in the OYB.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

Yes.

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

N/A

* As of March 18, 1983, Costa Rica was in violation of 620 Q of the FAA; the Secretary of State has made an exception.

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4. FAA Sec. 611(b); Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973?

N/A.

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A.

6. FAA Sec. 209. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

N/A.

7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.

The project is specifically designed to encourage a, b, c, d and e.

8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The project envisioned will create opportunities for U.S. investment abroad, and increase GDP so as to increase opportunities for US Trade. The heavy technical assistance component will draw upon US private enterprise and some PVO's to provide services required.

9. FAA Sec. 612(b), 636(h); Continuing Resolution Sc. 508. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The project will primarily fund foreign exchange costs. Most requirements for local currency will be met through host country contributions. The U.S. owns no Costa Rican currency.

10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for

N/A.

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? Yes.

12. Continuing Resolution Sec. 522. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? N/A.

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in A.I.D, Regulation 16? Does the project or program take into consideration the problem of the destruction of tropical forests? Yes.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local

Analysis predicts that the project will help to:

- o Substantially generate new and preserve existing employment including areas of employment having female participation
- o increase labor intensive production and
- o improve the quality of life of rural as well as urban dwellers.
- o encourage coops to participate in production and exporting
- o support-Costa Rica's own efforts to achieve economic, recovery and growth

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governmental institutions,
c) support

the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

Yes.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

Yes, where economic

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

Yes.

e. FAA Sec. 110(b).

N/A

Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character.

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

The program supports Costa Rican initiatives, and is consistent with Costa Rican capabilities.

institutional development;
and supports civil
education and training in
skills required for
effective participation in
governmental processes
essential to self-government.

2. Development Assistance Project
Criteria (Loans Only)

- a. FAA Sec. 122(b). N/A.
Information and conclusion
on capacity of the country
to repay the loan, at a
reasonable rate of interest.
- b. FAA Sec. 620(d). If N/A.
assistance is for any
productive enterprise which
will compete with U.S.
enterprises, is there an
agreement by the recipient
country to prevent export
to the U.S. of more than
20% of the enterprise's
annual production during
the life of the loan?
- c. ISDCA of 1981, Sec. 724 N/A.
(c) and (g). If for
Nicaragua, does the loan
agreement require that the
funds be used to the
maximum extent possible for
the private sector? Does
the project provide for
monitoring under FAA Sec.
624(g)?

3. Economic Support Fund
Project Criteria

- a. FAA Sec. 531(a). Will N/A.
this assistance promote
economic or political

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stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? N/A.

- c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? N/A.

- d. FAA Sec. 509. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? N/A.

ANNEX D

de marzo de 1983

Sr. Daniel A. Chaij
Director
Agencia para el Desarrollo Internacional
San José

Ref: Política, Planificación y
Mejoramiento Administrativo
Donación AID No. 515-0190

Estimado Sr. Chaij:

Por este medio me permito saludarlo y enviarle formalmente la solicitud del Gobierno de Costa Rica a la A.I.D. para que financie el proyecto de Política, Planificación y Mejoramiento Administrativo.

Esta donación a mi Gobierno y al sector privado es necesaria para una óptima utilización de los recursos recibidos de la A.I.D. y otros organismos internacionales, para lograr la estabilización y recuperación económica de Costa Rica. Los fondos serán usados para desarrollar políticas y planes económicos eficientes; para impulsar el sector privado y aumentar su producción y productividad especialmente para las exportaciones, y para alargar la inversión en su capacidad productiva; para una mejor administración de los diversos entes públicas, de manera

que logren rebajar sus costos, aumentar sus ingresos y trabajar con más eficiencia para contribuir al control del gasto público.

Las actividades que ya hemos identificado para bajo el proyecto cubren tres áreas e incluyen lo siguiente:

Formulación de Políticas Económica

- o Asistencia a CODESA por medio del Ministerio de Exportación e Inversiones, para evaluar sus operaciones, desarrollar una estrategia, y formular planes para la expropiación selectiva de sus empresas.

- o Estudio sobre la competitividad de Costa Rica en el área de la maquila.

Cumplimiento del Sector Privado

- o Asistencia al Ministerio de Exportación e Inversiones para desarrollar una estrategia para Costa Rica para las exportaciones y las inversiones.

- o Asistencia al Ministerio de Exportación e Inversiones para que defina su papel y responsabilidades en el sector, y una vez que esté organizado pueda, empezar sus actividades iniciales.
- o Asistencia directa al sector privado por medio de la Coalición Costarricense de Iniciativas de Desarrollo (CINDE), a los productores e inversionistas actuales y potenciales.
- o Asistencia al Ministerio de Exportación e Inversiones para que desarrolle y establezca un centro de exportación e inversión "one stop".

Mejoras Administrativas y de Gestión

- o Asistencia al Ministerio de Hacienda para que mejore los mecanismos que le permitan la recolección eficiente de impuestos directos.
- o Asistencia al Ministro de Hacienda para lograr mejoras en los sistemas aduanales.
- o Asistencia al Banco Central para que establezca los procedimientos necesarios y desarrolle un sistema automatico de procesamiento de datos.

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- o Asistencia a la Caja Costarricense de Seguro Social para (a) que mejore sus sistemas contabilidad y administración financiera, (b) mejore sus procedimientos para compras, administración y control de los suministros médicos.

- o Asistencia técnica al Ministerio de Planificación para revisar y evaluar el presupuesto del Gobierno de Costa Rica.

- o Asistencia técnica al Banco Central para adiestrar a empleados seleccionados en las teorías más recientes y prácticas del sistema bancario central, incluyendo el desarrollo bancario y planificación.

Contamos con su colaboración para resolver a cualquier problema que se presente para lograr estas metas. La flexibilidad del proyecto para cumplir con este requisito, y para servir igualmente y con facilidad al sector público y el sector privado nos parece ser crítica en este momento.

Atentamente,

Ing. Claudio Antonio Volio
Ministro
Ministerio de Planificación
Económica

BORRADOR

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INITIAL ENVIRONMENTAL EXAMINATION

PROJECT LOCATION: Costa Rica
PROJECT TITLE: Policy Planning and Administrative Improvement (PPAI)
FUNDING: FY 1983 Grant \$4,500,000
LIFE OF PROJECT: Two (2) years

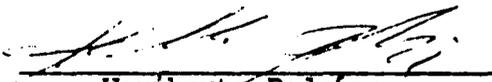
PROJECT DESCRIPTION

This project will provide technical assistance, training and other resources to assist Costa Rica in dealing with the economic policy problems it faces; the fiscal and administrative reforms; and the private sector recovery programs which it must implement to arrest the current contractions and stabilize the economy. It is intended to help improve the GOCR's economic policy planning capabilities as well as the management of revenue generating activities and budget cutting programs.

ACTION

This project will include technical assistance, and training which in agreement with Environmental Procedures, Regulation 16, Section 216.3 (a) does not require an Initial Environmental Examination.

IEE PREPARED BY:


Heriberto Rodriguez
USAID/General Engineer

CONCURRENCE:


Bastiaan B. Schouten
Acting Director
USAID/Costa Rica

Date: April 7, 1983

Clear:LO:JSilver 

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ANNEX F

LIST OF SUPORTIVE DOCUMENTATION AVAILABLE
IN USAID/CR FILES

1. Illustrative Implementation Scheules -USAID/GDD-files
 - a. CCSS Procurement and Supplies Management
 - b. CCSS Financial Management and Accounting
 - c. Tax Administration
2. Illustrative Technical Analyses -USAID/GDD files
 - a. Report on Improvements to Customs Administration -Costa Rica, Kenneth Stacey, August 1982
 - b. Survey of Internal Tax Administration -Costa Rica, Tax Administration Advisory Services Division -U.S. Internal Revenue Service, September 1982
 - c. "Síntesis de la Problemática de Suministros", CCSS
 - d. "Problemática del Sector Financiero/Contable", CCSS
 - e. Technical Assistance Plan, CCSS
 - Accounting/Financial Area
 - Procurement and Supplies Area

CBI IMPLEMENTATION PLAN
(to be attached when final copy duplicated)