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

COSTA RICA

PROJECT PAPER

ECONOMIC STABILIZATION AND RECOVERY PROGRAM II

AID/LAC/P-123

Grant Number: 515-K-602
Loan Number: 515-K-040

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PD-AAS 583

CLASSIFICATION:

AID 1120-1 (8-68)

PAAD

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO.: 515-K-602 (Grant) 515 K 040 LOan

2. COUNTRY: Costa Rica

3. CATEGORY: Cash Transfer

4. DATE:

5. TO: A/A.I.D., M. Peter McPherson

FROM: AA/LAC, Otto J. Reich

6. OYB CHANGE NO.:

8. OYB INCREASE:

TO BE TAKEN FROM: Economic Support Funds (ESF)

9. APPROVAL REQUESTED FOR COMMITMENT OF: $58,000,000(loan); 12,000,000(grant)

10. APPROPRIATION - ALLOTMENT: 72-112/31037 - LES2-83-35515-KG31 (Grant)
Loan, LES2 83 35515 KL 31

11. TYPE FUNDING: [X] LOAN [X] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [X] INFORMAL [ ] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD: FY 1983

14. TRANSACTION ELIGIBILITY DATE:

15. COMMODITIES FINANCED:

16. PERMITTED SOURCE
- U.S. only:
- Limited F.W.:
- Free World:
- Cash: 70,000,000

17. ESTIMATED SOURCE
- U.S.: 70,000,000
- Industrialized Countries:
- Local:
- Other:

18. SUMMARY DESCRIPTION

The purposes of the program are; (1) to provide balance of payment support to Costa Rica; (2) to assist the Government of Costa Rica (GOCR) to meet the objectives of the GOCR-International Monetary Fund (IMF) agreement and (3) to support the purposes and provisions of the CBI supplemental legislation and the objectives of the Costa Rica CBI implementation plan for private sector development. The $70.0 million program will consist of a cash transfer to the Central Bank of Costa Rica (BCCR). Within three months of the termination of disbursement of the cash transfer, the BCCR will make available to private importers an amount of foreign exchange not less than that disbursed under the cash transfer for the import of raw materials, intermediate goods and spare parts from the United States. The colon equivalent of the $58.0 million loan will be used to finance credit for the private, productive sector. The local currency generated from the $12.0 million grant will be used to finance social and economic development activities which will be managed by the Costa Rica Coalition of Development Initiatives (CINDE), a Costa Rican private, non-profit voluntary association.

The loan will be repaid in 20 years, including a ten year grace period. The interest rate will be 2% during the grace period and 3% thereafter. The $70.0 program will be subject to the conditions and covenants specified on pages 32-34 of this document.

19. CLEARANCES

Clearance	Date
~~XXXXXX~~ LAC/CEN:MSchwartz	12/1/82
~~XXXXXX~~ GC/LAC:RMeighan	12/1/82
~~XXXXXX~~ LAC/DP:JPurcell	12/1/82
~~XXXXXXX~~ LAC/DR:DJohnson	12/1/82
~~XXXXXX~~ PPC/PB:HHandler	12/1/82
~~XXXXXX~~ ARA/ECP:CAllen	12/1/82

20. ACTION: [X] APPROVED [ ] DISAPPROVED

AUTHORIZED SIGNATURE: for

DATE: Dec 3, 1982

TITLE: Administrator

CLASSIFICATION:

CONTINUATION OF CLEARANCES - ITEM No. 19

PPC/PDPR:JEricksson [illegible] 12-2-82
GC:C.L. Van Orman CLVO 2 Dec.
AA/PPC:JBolton [illegible] 12/3/82
FM:CChristensen [illegible] 12/3/82 [illegible] 12/3

COSTA RICA

PROGRAM ASSISTANCE APPROVAL DOCUMENT

USAID/Costa Rica
November 1, 1982

PROGRAM ASSISTANCE APPROVAL DOCUMENT

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* This report is an unbound ANNEX which is available in LAC/DR's Official Bulk File.

LIST OF ACRONYMS

ABS	Annual Budget Submission
AID	Agency for International Development
BCCR	Banco Central de Costa Rica
CACM	Central American Common Market
CARE	Cooperative for American Relief Everywhere
CBI	Caribbean Basin Initiative
CDSS	Country Development Strategy Statement
CENPRO	Centro de Promoción de Exportaciones
CINDE	Coalición Costarricense para Iniciativas de Desarrollo
CIP	Commodity Import Program
CODESA	Corporación Costarricense de Desarrollo
CP	Condition Precedent
ESF	Economic Support Fund
FAA	Foreign Assistance Act of 1961, as amended
FUCODES	Fundación Costarricense de Desarrollo
GOCR	Government of Costa Rica
IBRD	International Bank for Reconstruction and Development
IESC	International Executive Service Corps
IMF	International Monetary Fund
PAAD	Program Assistance Approval Document
PP	Project Paper
PVO	Private Voluntary Organization
ROCAP	Regional Office for Central American Programs
SNAP	Sistema Nacional de Ahorro y Préstamo
USAID/CR	United States AID Mission to Costa Rica

PROGRAM ASSISTANCE APPROVAL DOCUMENT

COSTA RICA: ECONOMIC STABILIZATION AND RECOVERY PROGRAM II

I. SUMMARY AND RECOMMENDATION

A. Economic Background

As has been well documented in the past two years1/, Costa Rica's economy continues to deteriorate and will experience further decline before necessary structural adjustments are in place. The economy continues to be plagued by an annual inflation rate estimated at 92% (as measured by the increase in the consumer price index for low - and middle income groups, August 1981 - August 1982), a massive currency devaluation, a continuing GDP decline (projected at 6% for 1982) and massive public and private external debt. Costa Rica will continue to experience sizeable balance of payments difficulties due principally to high levels of external debt service and because of projected slow export growth. In 1983, Costa Rica could face an unfinanced balance of payments gap as high as $565 million even after A.I.D., IMF and IBRD assistance is taken into account, if its external debt is not successfully rescheduled.

Recent progress has been made, however. In October 1982, agreement in principle was reached between the IMF and the GOCR on a comprehensive stabilization program. The resultant Letter of Intent, which was signed at the end of November, includes the following targets: (a) limits on the amount of credit that the National Banking System can provide to the public sector, (b) no further decline in the level of net interrnational reserves, (c) limits on the amount of foreign loans with maturities of less than 10 years, (d) requirements for meeting current interest obligations, (e) unification of the interbank and free exchange rates, (f) enactment of a tax reform package, (g) increases in the prices in interest rates. It is expected that the Stand-by Agreement will be formalized by the end of December.

1/ These studies 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 Economia en Crisis, December 1981; Clark Joel's macro-economic assessments of February 1982 (for CDSS) and October 19, 1982 (ANNEX III); Academia de Centroamérica, Costa Rica: Problemas Economicos 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, Evolucion de la Industria en Costa Rica durante el ano 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 Economic Support Fund program is designed to provide Costa Rica with critical balance of payment support and to assist the GOCR in attaining the objectives of the GOCR-IMF program and to carry out the changes in fiscal, monetary and foreign exchange policies contained in the Agreement. The signing of the Letter of Intent will be a condition precedent to signing the Program Agreement and the signing of the Stand-by Agreement by the IMF and the GOCR will be condition precedent to the second disbursement. In addition, this program will support the purposes and provisions of the CBI supplemental legislation and the objectives of the Costa Rica CBI implementation plan for private sector development.

B. Program Summary

The proposed $70 million program will consist of a cash transfer to the Central Bank of Costa Rica (BCCR), of which $58 million will be a loan, and $12 million will be a grant.

The grant funds are necessary to fund activities to be carried out through private and voluntary organizations and cooperatives. The Costa Rican constitution prohibits the donation of public funds to private sector institutions without specific Legislative Assembly approval of each transfer. The CBI Authorization Bill requires that particular emphasis be placed on PVO and cooperative activities in utilizing local currency generations. To be responsive to this direction, funds made available for such activities must be provided on a grant basis. In addition, if the $12 million were to be loan-funded to the GOCR, it would constitute 14.3% of the GOCR fiscal deficit allowed under the IMF program and would endanger Costa Rica's ability to meet the IMF targets.

The components of the program are:

1. Dollar Resources ($70.0 million) - Within three months of the termination of disbursement of the cash transfer, the BCCR will make available to private importers an amount of foreign exchange not less than that disbursed under the cash transfer for the import of raw materials, intermediate goods and spare parts from the United States. The BCCR will sell the dollars it makes available through the public and private banks of the National Banking System, as well as through private financieras, in accordance with the priorities and systems established by the BCCR, which favor the imports of such items. The BCCR will document imports of eligible commodities by the private sector and provide the Mission with a report of these transactions.

Disbursements to the BCCR may not exceed the following schedule:

(Millions of U.S. Dollars)

	Loan	Grant	Total
Initial Disbursement	$ 8.0	$12.0	$20.0
Second Disbursement	$10.0	0	$10.0
Third Disbursement	$10.0	0	$10.0
Fourth Disbursement	$10.0	0	$10.0
Fifth Disbursement	$10.0	0	$10.0
Sixth Disbursement	$10.0	0	$10.0
TOTAL	$58.0	$12.0	$70.0

Disbursements are scheduled and conditioned in such a manner, in order to encourage and support the GOCR's efforts to formally enter into and abide by the conditions of a GOCR-IMF Agreement, and to assure progress towards the policy objective of permitting BCCR rediscounting to private banks.

The economic analysis indicates that no problem should exist on the demand side with respect to the amount of foreign exchange to be made available by the BCCR to the private sector within the specified time period.

2. Local Currency Resources

(a) The colon equivalent of the $58 million loan portion of the cash transfer will be used to finance three categories of credit for the private, productive sector: (a) the colon equivalent of $43 million will be used by the BCCR to increase the liquidity of credit programs budgeted for the private sector, through the public commercial banks; (b) $10 million colon equivalent will be used to establish a special discount line, which will be reserved exclusively for participating private banks, and from which credit will be extended to the private sector; and (c) the colon equivalent of $5 million will be used to finance a special credit line to the National Savings and Loan System (Sistema Nacional de Ahorro y Préstamo, SNAP).

(b) The local currency generated from the $12 million grant which will be deposited into the account of the Costa Rica Coalition for Development Initiatives (CINDE), a Costa Rican private, non-profit voluntary association. This fund will be used to finance various social and economic development activities to be specified in a Memorandum of Understanding between A.I.D. and CINDE. CINDE will directly administer a limited number of activities, and manage the remainder of the program through activity agreements with other PVO and cooperative organizations.

C. Borrower/Grantee

The Borrower will be the Central Bank of Costa Rica (BCCR), which will administer the loan and dollar portions of the program through the National Banking System. The Costa Rica Coalition for Development Initiatives (CINDE), will administer the local currency program financed by the grant.

D. Conditions and Covenants

The conditions and covenants proposed for the loan are discussed in Section V of the PAAD.

E. Recommendation

USAID/Costa Rica and the U.S. Embassy recommend authorization of an Economic Support Fund Loan of $58,200,000 and an Economic Support Fund Grant of $12,000,000. The dollar loan will be repaid in 20 years, including a ten year grace period. The interest rate will be 2% during the grace period and 3% thereafter.

II. CURRENT ECONOMIC SITUATION

A. Introduction

A detailed analysis of the current status of the Costa Rican economy was prepared for this PAAD by Dr. Clark Joel, ROCAP Regional Economic Advisor. The report is entitled "Costa Rica: Update of Macroeconomic Assessment" and constitutes ANNEX II of this PAAD1/.

In brief, the analysis concludes that Costa Rica will face an unfinanced balance of payments gap of as much as $565 million in 1983 after proposed A.I.D., IMF, and IBRD economic assistance are taken into account. The bulk of this gap is attributable to interest payment arrearages which will have accumulated over 1981 and 1982. These arrearages, and future amortizations, will clearly have to be rescheduled; Costa Rica's debt servicing ratio would climb to the obviously unsustainable level of 78% in the event that successful commercial bank and Paris Club official debt renegotiation were not attained.

A drop of GDP of 6% in real terms is projected for 1982. This is particularly due to marked declines in fixed capital formation, a sharp decline in imports, and a more modest decline in exports.

A final major point emphasized in the analysis is the depth and degree of the fiscal readjustment to which the GOCR has committed itself in reaching agreement on a Letter of Intent to the IMF for the concession of a Standby Agreement. Political pressure will doubtless be considerable for the relaxation of some of the targets and policy changes implied, but it is clearly understood that, particularly in the face of the unfortunate history of noncompliance with previous IMF programs over the past few years, it is imperative that there be full compliance with this GOCR-IMF Agreement.

The following several sections highlight the major points made, and conclusions reached, in the ROCAP Regional Economic Advisor's update of the current economic situation.

B. The Balance of Payments in 1982 and 1983

Costa Rica's current balance of payments crisis has its origins in several factors which have been described and discussed in virtually all major documents submitted to AID/W by the Mission over the past two years (CDSS', ABS', 1982 PAAD, and FY 81 and FY 82 PP's). These factors, briefly, are: (1) an adverse terms of trade shift, as coffee and sugar prices have fallen, and banana prices remained low, while import prices, particularly for petroleum, rose; (2) a sharp decline in sales to the CACM due to political turmoil and the depressed economic condition of the whole

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1/ A copy of this report has been placed in the LAC/DR Official Bulk File.

region; (3) a cut-off of foreign lines of credit, both from banks and suppliers; (4) the increasingly acute problem of debt servicing which has affected the GOCR, its autonomous institutions, and the private sector; and (5) large public sector deficits financed by credit expansion.

Key points emphasized in the balance of payments analysis follow.

- For 1982, the IMF projects that net international reserves will have improved by $100 million by year's end.

- In 1983, IMF projections show the unfinanced balance of payments gap to be $539 million <u>after</u> all expected compensatory financing (other than IMF) has been allowed for; most of this sum will consist of the rescheduling of interest due on arrearages accumulated on the foreign debt in 1981 and 1982. This projection includes an allowance for $100.0 million in A.I.D. ESF balance of payments financing and $75 million in an IBRD structural readjustment loan. It does <u>not</u> include the anticipated $100.0 million of IMF assistance (please refer to Table 1, ANNEX II).

- Alternative projections were prepared by the ROCAP Regional Economic Advisor based on discussions with Costa Rican Central Bank officials. These projections, even <u>after</u> allowing for the $100.0 million of IMF financing, show a considerably worse picture, with net reserves declining by $565 million. The difference is accounted for primarily by less optimism regarding export performance, and lower estimates of official capital inflows (see Table 2, ANNEX II).

- Despite the differences of degree in these projections, the magnitude of Costa Rica's balance of payments disequilibrium is readily apparent. In 1983, the country will require $638 million to finance arrears of principal alone, and an additional $469 million for interest arrears. This constitutes the major part of the balance of payments problem. If the debt arrears situation is not taken into account, the unfinanced gap is reduced to only $26 million. This, however, includes the A.I.D., IMF and IBRD compensatory financing of $275 million, without which the unfinanced gap would still be around $300 million.

C. <u>Debt Service</u>

Costa Rica's debt servicing ratio has spiraled enormously in the past few years. In 1979, this ratio (defined as the ratio of interest and principal payments due on the external official foreign debt to merchandise exports) was already very high at 36.4%. For 1982, the ratio will be just over 80%, dropping only two percentage points in 1983. The combined effect of declining exports and rapidly accumulating arrearages helps to explain this situation. No country can service a debt equal to 80% of its export earnings, and it is abundantly clear that accrued arrears, as well as principal repayments coming due in the medium term, will have to be rescheduled over a considerable period. A restructuring of Costa Rica's debt with commercial lenders will be necessary, and a Paris Club renegotiation is also clearly called for as soon as possible after the formalization of an IMF Agreement. However, the precise scheduling of these negotiations, and their ultimate outcomes, remains unclear. The following table depicts in graphic detail the evolution of the GOCR's foreign debt profile over the past few years:

DEBT SERVICE CHARGES ON THE
EXTERNAL PUBLIC DEBT
(In million of dollars)

	Interest	Principal	Total	Merchandise Exports	Debt Service Ratio (3) as % of (4)
1979	129.5	213.8	343.3	942.1	36.4
1980	159.0	253.7	412.7	1,000.9	41.2
1981	307.9	274.8	582.7	1,029.7	56.6
Projected					
1982	466.0	306.0	772.0	960.0	80.4
1983	545.0	235.0	780.0	1,000.0	78.0
Unpaid Arrears as Of Dec. 31, 1982	516.6	714.2	1,230.8		

D. Real GDP

In constant prices, GDP is expected to further decline in 1982 by 6%. Last year's drop has variously been estimated between 3.5 and 4.6%; per capita GDP growth has been negative since 1979; and real national income per capita has not increased since 1978. In 1982, fixed capital formation and imports and exports show the most dramatic drops. For 1983, zero growth in the GDP is projected.

The sectoral breakdown of GDP shows that the largest 1982 declines will be in construction, down by 40%, in commerce, down by 18%, and in manufacturing, down by 6.5%. The construction sector, in particular, has been suffering a continued decline for several years as government public works contracts have fallen off dramatically, the rate of return on housing and building rentals has become sharply negative, and credit for private housing has decreased.

The goal of zero GDP change in 1983 is predicated on the A.I.D., IMF and IBRD compensatory financing cited in the balance of payments projections, as well as on the needed debt rescheduling discussed earlier. Otherwise, maintaining real 1982 GDP will prove impossible (please refer to Table 3, ANNEX II).

E. Fiscal Situation

The GOCR has committed itself to a drastic retrenchment of the public sector deficit as part of the overall package of targets and policy changes agreed in anticipation of an eventual IMF Agreement. Although the 1982 public sector deficit will have increased in nominal terms, this deficit of 9.6 billion colones actually represents a decline in constant colones over the previous year. In 1983, the deficit is actually projected to drop to 6.8 billion colones , which would be a decrease from 1982 in real terms of some 55% (please refer to Table 4, ANNEX II).

The Costa Rican legislature is currently considering, and is expected to pass, a comprehensive tax reform measure which will contribute an additional 3.1 billion colones to GOCR revenues. Among the measures being debated are temporary surcharges on the corporate income tax, an increased vehicle tax, broadening the coverage of the general sales tax and increasing its rate from 8 to 10%, increasing taxes on selected consumer goods, and substantially raising the property tax rate.

The Central Government's deficit is projected to remain, in absolute terms, approximately the same in 1983 as in 1982. This means contraction of approximately 35% in real terms. An even greater deficit cutback will be realized in the autonomous public sector, where the various state enterprises are committed to raise their rates so as to eventually eliminate deficits. This is projected to result in a decline in their consolidated operating deficit from 5.7 billion colones to 2.6 billion colones (in current colones), which means a 70% reduction in real terms. Numerous rate increases have taken place over the past several months in several key areas such as: electricity, which has been raised by 70% to date, with a further 45% raise planned over the next few months; gasoline, which has been raised by 69%; and water, which was raised by 90% in March, 1982, with a further 109% raise planned over the next several months. Railroad, telephone, postage and public transportation fees have also been raised substantially in recent months, with the prospect for additional hikes in the future. It has been agreed with the IMF that cost increases incurred by state enterprises will be passed automatically to the public. This would mean, *inter alia*, that increases in the interbank exchange rate (see section F, below) would result in automatic fee increases to the public, inasmuch as they affect imported goods such as petroleum, the services generated thereby, and state enterprise external debt service. Closure or divesture of some state (CODESA) enterprises will also probably be required to lower the autonomous public sector deficit.

A particularly useful indicator of the extent to which the public sector deficit is to be reduced is the proportion of this deficit to GDP. According to the IMF's projections, this percentage will fall from 15.0% in 1981 to 9.2% in 1982, and to 4.4% in 1983.

F. Foreign Exchange Regime

The Mission's last PAAD cited the exchange rate policy of the new Government as being of special importance, particularly insofar as this would provide adequate incentives to export producers. A number of different systems for handling the liquidation and provision of foreign exchange have been in effect over the past two years, variously causing foreign exchange credit demand and export interest to wax and wane in accordance with the policy of the moment. In recent months, however, amendments to the Central Bank Law, and the adoption of new regulations affecting access to, and the handling of foreign exchange have had the combined effect of stabilizing the colon's earlier highly volatile exchange rate, and helping to reestablish private sector confidence in exporting. Unfortunately, however, there are also strong indications that the foregoing is taking place at the price of longer waiting periods for the purchase of foreign exchange.

There are currently three authorized exchange markets (and rates) in effect. The official rate of colones 20 to $1.00 has very limited applicability; it serves essentially only for the import of certain medications and for providing foreign currency to a decreasing number of Costa Ricans studying abroad. Supply for this market comes from the liquidation of 5% of export receipts. The interbank rate, currently 40:1, is the rate at which 95% of export earnings, and loans to the GOCR and its autonomous institutions from international and bilateral entities, are liquidated; foreign exchange is available at this rate for the importation of "strategic" items, including most raw materials, intermediate and capital goods. Third, the "free" bank rate, which is currently just above 50:1, is the rate at which dollars may be purchased for the importation of nonstrategic goods and services, or for tourism, dividend, royalty, and private debt payments, but not for capital repatriation or capital flight. Demand outside the authorized channels must be satisfied in the illegal black market, which is reportedly very thin at the moment but which would quickly expand if a substantial proportion of total demand cannot be met at the interbank and "free" bank rates.

The new system for handling foreign exchange, adopted in August, has the following characteristics:

- Foreign exchange transactions are restricted to the State Banks and specifically authorized private banks. Transactions between unauthorized individuals or businesses are illegal.

- Exchange rates, other than the official rate, are managed and will be adjusted as determined to be necessary by the BCCR. While unification of the official rates has been identified as a GOCR objective, and will be required by the end of 1983 in the IMF agreement, two principal rates currently exist: the preferred interbank rate, which is currently *colones* 40:$1, and the free bank rate, which is currently around *colones* 50.65:$1.

- *All* foreign currency earnings must be liquidated with the BCCR within one day of their entry into the country. This requirement includes borrowings - both currency and letter of credit type documents.

- The BCCR has published a list of 246 "strategic" items which may be imported at the preferred interbank rate and which includes most inputs required for production.

- The BCCR has declared and reaffirmed its intention to provide all the foreign exchange required by the productive sector for the purchase of external "strategic" imported items. This committment is extended to repayment of external loan obligations incurred for the import of "strategic" items.

- Foreign exchange will be provided as available at the free bank rate to importers of items not included on the "strategic" list.

Under the new system, a producer requiring imported inputs for production must file a request with the BCCR for the foreign exchange required for the purchase. If the required import is on the list of "strategic" items, the request receives priority attention and the producer is allowed to purchase the required foreign exchange at the preferred interbank rate. If the import is not on the list, the dollars, if available, must be purchased at the higher "free" bank rate. In determining eligibility for the purchase of foreign exchange at the interbank rate, preference is given to the imported input needs of exporters of non-traditional products, even if materials are not on the strategic list.

When an exporter earns foreign exchange, 95% of the earnings must be promptly liquidated with the banking system at the interbank rate and 5% at the official rate. The foreign exchange earner is, in effect, taxed as the earnings are liquidated. This "tax" is in addition to other export taxes which are levied on the "exchange differential", which is the difference between the official and interbank rates.

If the producer borrows foreign exchange from abroad to finance imported items, the borrowings must be liquidated with the BCCR at the interbank rate. As the import purchase transaction occurs, the producer/importer is then allowed foreign currency at either the interbank or the "free" bank rate, depending on whether or not the import is on the "strategic" items list. In order to have access to foreign currency at the preferred interbank rate to repay the foreign currency loan, the producer must have registered the borrowing at the BCCR as financing for the import of "strategic" items and provide documentation of the purchase.

If, as is usually the case, the producer/importer employs a letter of credit from a foreign lender to purchase a "strategic" import, the producer/importer must have registered the loan with the BCCR in order to secure foreign currency at the preferred interbank rate to repay the loan.

Since the adoption of the new system, the colon:dollar free exchange rate has dropped from over 63:1 to just over 50:1 today. At the same time, the interbank rate has risen to 40:1 (from 38:1). Thus, the differential between the two rates has been reduced dramatically, by some 60%, in the relatively short period of a couple of months. It is, however, not clear that this recent drop in the exchange rate is in fact due to an actual attainment of dollar:colon equilibrium. Informal soundings of the private sector indicate that very considerable delays continue to plague foreign exchange requests, implying that the mechanism is not operating smoothly, nor in accordance with true supply and demand forces. The IMF Standby Agreement will establish strict criteria for the management of foreign exchange transactions to ensure that the exchange rate will not be subject to manipulation and will, in fact, operate freely.

G. Monetary and Price Situation

A moderate rate of total bank credit expansion to the public sector is scheduled for 1982 and 1983. The respective rates of expansion are 36% and 15%, both of which are considerably lower than the forecast increases in the price level (see below). The proportion of total credit to the public sector as a proportion of GDP will drop to 9.3% in 1983, compared to a ratio of almost 17% in 1981.

The private sector, on the other hand, will receive considerably more new credit. This will increase by 39% in 1982 and 48% in 1983. Not only will such a program seek to replace some of the foreign credit lines which have dried up as a result of the current crisis, but it will also begin to redress the serious disequilibrium which had developed in recent years in Costa Rican banking, between new credit creation to the private sector as compared with that for the public sector. The program for 1983 will also attempt to match, or stay ahead of the rate of inflation to prevent a further contraction of credit to the private sector in real terms.

The money supply (currency plus demand deposits) increased by 50% in 1981, and is projected to increase by 78% in 1982. However, the rate of increase will decline to 37% in 1983, which is three percentage points below the projected inflation rate for that year. The annualized 1982 inflation rate for the January-August, 1982 period is 92% for the consumer price index, and 99% for the wholesale price index, an improvement over earlier triple digit rates. The IMF inflation rate projection for 1983 of 40% will thus represent a very substantial reduction in this key indicator, and will only be attainable if the fiscal and monetary targets summarized earlier are strictly adhered to by the GOCR (please refer to Tables 6-9, ANNEX II).

H. The IMF Agreement: Main GOCR Commitments

The Letter of Intent on which agreement in principle was reached between the IMF staff and the Government of Costa Rica, and which was recently approved by IMF management, could not be made available at the time of this writing. However, its major goals and conditions are apparent from the set of IMF tables reproduced in ANNEX II, and were elaborated, without quantification, by Central Bank staff in their conversations with the ROCAP Regional Economic Advisor. They are as follows.

- Limits will be set on the amount of credit that the consolidated banking sector can provide to the public sector, as well as on the total net amount of credit that the Central Bank can provide. Observance of these limits would in turn require that the consolidated public sector deficits be held to approximately the limits projected in Table 4, ANNEX II.

- No further decline in the level of net international reserves in 1983.

- A limit on the amount of foreign loans with maturities of less than 10 years that can be contracted.

- Meet the current interest obligations that fall due beginning in January of 1983. It is recognized, however, that both principal and interest payment arrears must be capitalized and rescheduled.

- Unify the interbank and "free" bank exchange rates within a year of signing the agreement, and narrow the gap between them in the interim.

- Enact the tax reform package, including a 10% gasoline sales tax.

- Increase the prices of services provided or sold by state enterprises, e.g. gasoline, electricity, water, transport, etc., to permit the enterprises to achieve solvency. These increases would be made in line with cost increases, including colon costs of external debt service, resulting from the adjustment in the inter-bank rate.

- Increase social security contributions by 4%: 2% for the employer and 2% for the employee.

- Adjust interest rates: the rate on deposits is to rise to 25%, while interest charged on most agricultural loans is also to rise to that level. Interest on manufacturing, commerce, and agricultural investments loans is to increase to a range of 28 to 30 percent.

- Salary increases in the public sector are to be governed by the absolute increase in the cost of the low income group basket of goods, which should increase by no more than 40% in 1983, and which constitutes only a portion of the minimum wage. Moreover, the resulting increase in the salary of low income groups cannot be exceeded, in absolute terms, for middle and high income public sector employees. This means increases of only 5 to 10 percent, in monetary terms, for public servants in this category.

Compliance with these terms will not be easy politically. It calls for an unusual degree of self-discipline, and for a significant cutback in living standards for many people, particularly public sector employees. The government, in this democratic country, will be subject to strong pressures from many quarters to adopt less stringent policies.

The goals are ambitious, particularly those relating to the rate of inflation, which is to be brought down to less than half that of 1982; the reduction in the public sector deficit from 15% of GDP in 1981, to only 4.4% in 1983; the tax reform package; the increases in the rates of essential public services and gasoline prices; and the restraint in salary increases of public sector employees. The requirement of the unification of the exchange rates will increase import prices and entail further upward adjustments in the prices of essential public services and in government expenditures.

There appears to be a strong determination on the part of the GOCR to observe all the terms of the IMF Agreement. Too much is at stake to allow it to fail: the $100 million IMF standby, the $75 million IBRD Structural Adjustment Loan, the $130 million in AID/ESF, and the goodwill of the foreign banking community that must agree to reschedule the country's foreign debt. Success of the program will depend, in large measure, on the government's resolve, and on its ability to resist the political pressures that will be brought to bear to adopt less drastic measures.

III. U. S. INTERESTS AND CBI OBJECTIVES

Costa Rica's economic crisis poses serious challenges to the country's political and economic system, particularly when considered in the context of the disruption affecting all of Central America. The new Costa Rican administration which took office in May of 1982, will continue to have to face the economic difficulties head-on, and undertake further difficult and far-reaching measures. It will also have to convince the country that its severe economic problems are being dealt with effectively, that the austerity measures will pay off, and that the necessary sacrifices will be shared equitably. This is likely to be an extremely difficult task. It is clear that a long period of stringent financial and fiscal discipline will be required of Costa Rica's government and people, and that the economy must undergo a far-reaching structural adjustment.

It is not certain how Costa Ricans will react to a protracted period of high unemployment, eroded purchasing power, periodic food shortages, and cut-backs ir public services. It is evident, however, that the average person is becoming increasingly more concerned, and more vocal with respect to his/her desire to see demonstrable improvements.

The U.S. interest is to assist Costa Rica in carrying out the required adjustment in a manner which preserves the basic tenents of a democratic society and a free market economy. U. S. Economic Support fund assistance can help Costa Rica ease the strain of the austerity measures it must take over the next several years. There is considerable risk that Costa Rica's institutions might not survive the current crisis without the substantial assistance proposed by A.I.D. and other donors. In addition, A.I.D.'s assistance provides the GOCR with further incentives to undertake difficult policy changes and structural reforms that might otherwise not be politically possible. Economic assistance is, perhaps, the principal means by which the U.S. can attain its interests in Costa Rica. Thus, in the Mission's last two CDSS documents an Economic Support Fund program has been proposed which will be of substantial proportions over the next four to five years. In addition to an augmented DA program, and a substantial PL 480, Title I program, Economic Support Fund assistance for Costa Rica was authorized in the amount of $20 million in FY 1982, and a possible $60 million, in addition to the $70 million proposed in this PAAD, may be authorized in FY 1983.

The proposed program supports the goals and objectives presented in the Caribbean Basin Initiative Implementation Plan for Costa Rica. The goals are as follows:

- to help reestablish dynamic growth in the Costa Rican economy; and

- 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.

These goals, and the objectives which support them, are based on the conclusion that the current Costa Rican economic problems have deep structural roots. The program is designed to address the various facets to this problem by pursuing the following five principal strategy objectives:

- 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 proposed IMF agreement.

- 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 services to the productive private sector beyond that currently available through the nationalized banking system.

- Expansion of Exports and Investment - 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 current 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 faciliate 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 program proposed in this PAAD is in direct support of these objectives. In addition, the program supports the objectives of Sections 103-106 of the FAA. Also, the local currency grant component of the program finances activities consistent with Section 123 of the FAA. The relationship of the proposed program to FAA and CBI objectives is presented in Section IV. D. below.

IV. PROGRAM DESCRIPTION

A. Program Components

The components of the proposed program are as follows:

1. A $70 million cash transfer to the Central Bank of Costa Rica, of which $58 million will be a loan, and $12 million will be a grant.

2. A local currency program equivalent to the $70 million cash transfer, with the following sub-components:

a. local currency equivalent to the $58 million loan portion of the cash transfer will be channeled into productive private sector credit through the banking sector;

b. local currency equivalent to the $12 million dollar grant-funded currency exchange will fund PVO/cooperative activities.

B. U.S. Dollar Resources

1. Use of U. S. Dollar Resources

A $70 million cash transfer to the Central Bank of Costa Rica (BCCR) is proposed, of which $58 million would be a loan and $12 million would be a grant to the Central Bank of Costa Rica (BCCR). The colon proceeds from the grant would be made available to an umbrella PVO as described in Section IV.C.2., below. The loan portion of the transaction would be at the normal A.I.D. loan terms for which Costa Rica is eligible: a 20 year loan with a 10 year grace period, 2% interest during the grace period, and 3% thereafter.

Within three months of the termination of disbursement of the cash transfer, the BCCR will make available to private importers an amount of foreign exchange equivalent to that disbursed under the cash transfer for the import of raw materials, intermediate goods and spare parts from the United States. The BCCR will sell the dollars it makes available through the public and private banks of the National Banking System, as well as through private financieras, in accordance with the priorities and systems established by the BCCR. Assuming that the planned cash transfer disbursement schedule, which is described in the following section, is adhered to, the BCCR would have to make available $70 million during an eight month period. The private sector's eight month foreign exchange requirements for raw materials, intermediate goods, and spare parts from the U.S. substantially exceeds $70 million. Data provided by the Central Bank show that in 1980, the last "normal" year, Costa Rica's imports of raw materials and intermediate goods from the U.S. alone totalled $251 million (see Annex III, pages 26-27 and Table 26.).

Moreover, the BCCR's new foreign exchange allocation system and priorities favor the import of raw materials, intermediate goods, and spare parts. No problem should therefore exist on the demand side with respect to the BCCR making $70 million available within an eight month period for such imports from the U.S.

2. Disbursement of U.S. Dollar Resources

Cash transfer disbursements may not exceed the monthly disbursements indicated in the following schedule:

	Loan	Grant	Total
Initial Disbursement	$ 8.0	$12.0	$20.0
Second Disbursement	$10.0	0	$10.0
Third Disbursement	$10.0	0	$10.0
Fourth Disbursement	$10.0	0	$10.0
Fifth Disbursement	$10.0	0	$10.0
Sixth Disbursement	$10.0	0	$10.0
TOTAL	$58.0	$12.0	$70.0

Disbursement will normally be made at the end of each month. Disbursements beyond the second tranche will be contingent upon the signing of and GOCR compliance with the substance of the IMF agreement[1/].

Disbursements beyond February of 1983 will also be contingent upon submission to the Legislative Assembly of an amendment to the Central Bank law to permit the participation of the private commercial banks in the Central Banks rediscount programs on an equal basis with the public banks.

1/ In the event of a GOCR violation of the IMF agreement, A.I.D. will determine its actions via the following procedure: A.I.D. will despatch to Costa Rica one or two economists to determine, (a) the seriousness of the violation; (b) the degree to which the violation is due to factors beyond the government's control (such as further deterioration of the terms of trade or decline in the real GDP); (c) the degree to which the violation threatens the overall economic stabilization program; (d) whether it represents a weakening of the will of the government to comply with the terms of the IMF agreement.

3. Justification for Cash Transfer

In designing the program, the Mission weighed the merits of a cash transfer vs a Commodity Import Program (CIP), and the experience with both in other countries in the Caribbean Basin and elsewhere. Based on an analysis of the advantages and disadvantages of each approach, the Mission concluded that the cash transfer mechanism was the only means to achieve the objectives of this $70 million program.

Two of the principal objectives of the program are: (1) to encourage the GOCR to enter into and adhere to an IMF Agreement and (2) to encourage the GOCR to modify its banking legislation to open up direct Central Bank lending to private banks. The Program Agreement will contain subsequent Conditions Precedent and a Special Provision which will permit A.I.D. to suspend scheduled disbursements should the above mentioned principal policy objectives be in jeopardy. Furthermore, the cash transfer disbursement schedule has been designed to maximize the probability of GOCR success with an IMF program. Both the "leverage" of having the right to suspend scheduled disbursements and the support given of well-timed dollar inflows to the IMF program would be lost with a CIP. The nature of the CIP mechanism is such that it does not permit either this type of scheduling, or the infusion of foreign resources into the economy when most needed. Furthermore, the Costa Rican private sector is already burdened with excessive procedural delays with regard to its access to foreign exchange; adding those of a CIP would not be helpful. In addition to the inherent characteristics of the CIP mechanism itself, the establishment of such a program in Costa Rica will require from three to six months to set up. Also, the administration of the program would tax staff capacity of the BCCR, at a time when they are burdened with the problems of resolving the current economic crisis. Finally, the CIP approach would require Mission staff time to administer; the Mission does not have, nor does it expect to have, at any time in the foreseeable future, the staff resources to manage a CIP program.

On the other hand, systems already exist in Costa Rica which provide reasonably good assurance that additional foreign exchange will reach the productive enterprises.

The marginal gain in accountability that would be obtained by using the CIP in Costa Rica does not justify either the loss of control in the timing and effectiveness of disbursement, or the additional load on the limited staffs of both the Central Bank and the A.I.D. Mission. The capacity of either group to maintain the program is doubtful, in view of existing demands to design and implement the broader economic reforms and stabilization program.

4. Management of U.S. Dollar Resources

Dollar disbursements of the cash transfer will be made identically for both the loan and grant portion of the program.

Disbursements will be made into a BCCR account, in accordance with its instructions. It is anticipated that electronic transfer of funds to a U.S. bank will be employed. However, because of the possibility of embargo of such an account by GOCR creditors, other mechanisms may also be employed.

C. Local Currency Resources

1. Local Currency Equivalent of the Loan ($58.0 million)

The colon equivalent of the loan portion of the cash transfer will be used to finance three categories of credit and for the private productive sector: (1) The colon equivalent of $43 million will be used by the BCCR to help ensure the liquidity of BCCR budgeted credit programs of the public commercial banks; (2) $10 million colon equivalent will be used to establish a special discount line, which will be reserved exclusively for participating private banks, and from which credit will be extended to the private sector; and (3) the colon equivalent of $5 million will be used to finance a special credit line to the National Savings and Loan System (Sistema Nacional de Ahorro y Préstamo, SNAP).

a. The BCCR Credit Program

The BCCR will utilize the colon equivalent of $43 million to permit an increase in 1983 over the 1982 levels of unsubsidized lending by the public commercial banks to the private sector for industry, agro-industry and agriculture. In 1982, credit allocations by the BCCR for these programs totalled nearly 12.4 billion colones.1/ The cash transfer will permit an increase in these credit programs in 1983 by the colón equivalent of at least $43 million.

Documentation of the increase will be satisfied by BCCR reports of the National Banking System lending through these programs. The A.I.D. requirement that the credit be extended exclusively to the private sector will be satisfied by virtue of the IMF program prohibition on increases in banking system credit to public (CODESA) enterprises.

b. The Private Bank Discount Line

Private bank response to the placement of the indirect BCCR discount line created by the recent $20 million ESF operation has been good. The sum set aside for private banks under that local currency program was the colón equivalent of $5 million. Under this program an

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1/ The exact 1982 total was 12,392,400 colones, exclusive of credit for cattle raising, housing, commerce, sevices, personal lines and other special activities.

additional $10 million equivalent will be set aside for indirect discount to private banks. The discount lines are indirect from the BCCR because legally there must be a state bank (or CODESA) intermediary for the discount operation to take place. Until the required legal changes are made to permit direct private bank participation in BCCR discount lines and other lending, this program will be important to assist in the growth of private banking in Costa Rica. The emphasis in this credit line, as in the present one, will be on working capital financing for non-traditional exporters.

c. The Special Credit Line to the National Savings and Loan System (SNAP)

As has been pointed out earlier, the employment-intensive construction sector has been especially adversely affected by the Costa Rican economic crisis. The colon equivalent of $5 million which will be chanelled to the SNAP through this special credit line will not only help to create much needed employment and housing, but will also assist the private sector SNAP to recover from the precarious financial situation into which the macro-economic crisis has pushed the system[1/].

d. Credit Targets

The special credit line for the colon equivalent of the $5.0 through the SNAP will be used exclusively for the provision of mortgage financing for families below or at the median income level.

1/ The Mission recently contended in the PP for HG-007 that the SNAP did not require this assistance. Two factors have influenced a change in our position. First, the financial analysis upon which that earlier conclusion was based did not take into account a 3.5-4.0% increase in the cost of money to the system which will result from the IMF Agreement. On the contrary, it assumed that lower average cost financing would be available to the SNAP. Secondly, our previous position assumed that a $4.0 million advance could be made available immediately to the SNAP from HG-007. This assumption has been invalidated by the delay in contracting HG-007 resources which will be caused by PRE/HUD's position on the contracting of those resources in the light of the probable upcoming Paris Club debt renegotiations. The Mission now views the assistance to be provided as vital to the SNAP and probably indispensable for the feasibility of HG-007.

All private producers/exporters (including agricultural, agro-industrial and industrial) will be eligible to apply through the participating banks for credit under the colon equivalent of the $53.0 million. Priority attention, however, will be given to small and medium-size companies or cooperatives in order to maximize the developmental impact of the credit program.

2. Grant Funded Local Currency ($12.0 million)

a. Use of Grant Funded Local Currency

The colones generated from the $12 million grant include funding for private and voluntary organizations and cooperatives consistent with the objectives of Section 123 of the FAA. A Memorandum of Understanding will be signed with the Costa Rican Coalition for Development Initiatives (CINDE), an indigenous PVO. CINDE will be responsible for executing, defining and overseeing a variety of development activities in Costa Rica, the majority of which will be implemented under activity agreements with other U.S. and Costa Rican PVOs and cooperatives.

(1) Description and Responsibilities of the Costa Rican Coalition for Development Initiatives (CINDE)

CINDE is a legally established, private, non-profit Costa Rican association which grew out of a civic action group of key private sector leaders. These leaders are interested in playing a role in revitalizing the Costa Rican economy while promoting responsible growth, and have in the past served in a key advisory role to USAID/CR. The group was founded on the premise that its members should be influential in both the public and the private sectors, but also apolitical, in order to assure that they could be effective in addressing long-term as well as short-term problems. This orientation is reflected in the new members selected for the Board of Directors of CINDE, whose incorporation was undertaken when the group sought to become more effective by moving from a purely advisory role, to one of program development and management within Costa Rica. The CINDE charter states the following as the association's objectives:

- To contribute to preserving the fundamental civic values that characterize the Costa Rican society such as liberty, democracy, respect for the law, justice and peace;

- To promote the effective application of responsibility and social justice as important elements within a realistic scheme of national development;

- To contribute to the economic and social development of the country, and therefore to the general welfare, by strengthening institutions, private productive entities, and the promotion of national exports;

- To contribute to the formation of an attractive environment for the attraction of investment needed for the growth of private business activity;

- To contribute to the strengthening and restructuring of productive entities in order that they acquire the necessary potential to compete effectively with similar entities in other countries as a result of improved knowledge, technology, general and technical capacity, efficiency, and productivity.

The CINDE organization presently consists of its Board of Directors. A small executive directorate is being established whose job is to implement the program either through direct contracts, or through grants to other PVOs and to cooperatives. CINDE will be registered with AID as a PVO and will contract with a consulting firm to augment its management capacility if necessary.

In addition to a limited number of activities which it may undertake directly, CINDE will receive/solicit proposals for funding from other private and voluntary groups operating in Costa Rica which are generally of a more specialized nature, e.g. IESC, CARE and C@ritas. A standardized format for activity agreements will be developed which will include a brief description of the proposed activity, including specific objectives and outputs to be achieved, and implementation and financial plans. Activity agreements will be reviewed by the Executive Director and the Board of Directors of CINDE, to determine worthiness and their eligibility according to the criteria to be included in the Memorandum of Understanding between A.I.D. and CINDE. Under the terms of the Memorandum, A.I.D. will approve the financing of CINDE-funded activity agreements carried out with funds provided under this program and all CINDE direct contracts in excess of $20,000.

(2) Illustrative Activities to be Funded Under Memorandum of Understanding

The Memorandum with CINDE will specify the categories of activities and respective levels of funding which will be eligible for financing from the local currency fund generated from the $12 million grant. Illustrative examples of the activities to be funded are presented below and are divided into the components and funding levels which will be specified in the Memorandum.

(a) Social and Economic Development Activities Implemented by PVOs/Cooperatives ($7.0 million)

This category will include funding for social and economic development activities, with special emphasis on employment-generating activities, targeted to improve the standard of living of the rural and urban poor. The various types of assistance, which will be implemented by PVOs/cooperatives, are described below.

In order to augment the income of small artisans and to provide them with adequate knowledge and channels to enter export markets, a project is under consideration to strengthen existing artisan group federations and cooperatives. Financing is needed to provide members of the associations with credit (cash or in-kind) for raw materials, tools, and equipment. This would provide members the benefit of bulk purchases, tax exemptions, and a greater likelihood of obtaining credit by virtue of membership in the association. The availability of credit as well as the provision of assistance in marketing and exporting would enable the small artisan groups to expand production for export and the level of living of their members.

A similar activity is under review by CARE to assist in the small farmer production of high value crops, such as pepper, other spices and sesame seed, which are suited to small farm cultivation, and which have export potential. Production has been constrained by lack of credit through the National Banking System. Financing is needed to provide small farmers with credit and technical assistance in marketing to improve yields and to permit entry into export markets.

Another activity under consideration is funding for the National Emergency Food Plan. A rapidly increasing number of families can no longer afford the minimum-cost, nutritionally sound basic food basket. Concerned with the plight of these unemployed and the underemployed, the Office of the Presidency has announced plans to provide monthly food supplements to 25,000 of the neediest families. PVOs such as CARE and Catholic Relief Services have been asked by the GOCR to join these efforts to design, seek financing and implement a feeding program. This support, coordinated by CINDE, and channeled through specialized PVO's, will help the GOCR respond to the pressing problems of hardship, hunger and malnutrition being suffered by the poorest and most vulnerable families. Food for Work would be stressed for the unemployed.

Another possible activity to be financed by the CINDE fund would be to address the shortage of effective administration in the cooperative sector. The number of cooperative organizations has grown in Costa Rica from 35 in 1959 to 350 in 1981. Unfortunately, little priority has been given to improving the administrative capability of the cooperative organizations. The results are shown by the lack of: (1) systematic manpower plans or managerial positions; (2) specialized training at national institutions in cooperative oriented operations and administration; (3) in-service training in the fields of cooperative administration and management; and (4) in-country capacity to provide such training. In order to address the deficient administrative capability of the cooperative sector, in-country, in-service training programs to upgrade management skills of cooperative managers and administrators through the Instituto Centroamericano de Administracion de Empresas (INCAE) and the Cooperative Training Center (CENECOOP) are being designed.

To complement dollar funded activities to be undertaken under the $2.0 million program earmarked for AIFLD from the CBI appropriation, efforts to design educational programs and in-country intensive training for labor union members, and selective managers pertaining to leadership; organization; and responsibilities of union and management are underway. The objectives of this activity would be to promote and strengthen democratic labor unions in Costa Rica, and to develop labor management relations along lines which are constructive and which support the country's need to increase economic growth.

Also under consideration for funding is a program with the International Service Corps (IESC) to assist the many Costa Rican firms which are struggling due to a lack of financial, managerial or engineering technology. IESC will identify the specific need and expertise required to assist local firms, and will contract appropriate assistance.

(b) <u>Export and Investment Promotion Activities ($4.450 million)</u>

This category will include funding for training, and promotion of employment generating activities in the areas of exporting and foreign investment. Illustrative activities are described below.

In order to mitigate the hardship to workers and the politically destabilizing ramifications of high unemployment, a program will be developed to provide on-the-job training for the non-management employees of businesses which expand employment in the production of non-traditional exports. Not only would the program relieve unemployment by providing salary support for workers, but it would also have longer term benefits due to an increase in the knowledge and skills of workers of non-traditional export businesses.

CINDE is also considering the formulation of a nation-wide educational campaign through various media to develop popular support to establish drawback (assembly) industries1/ in Costa Rica. The program would promote drawback industries as well as assist in dispelling misconceptions such as that the value-added from assembly operations is negligible, that tax exemptions have a net cost rather than a net benefit, and that foreign capital "exploits" low-wage labor. Promoting agro-industrial investment and joint ventures could also be included under the program.

In addition to the educational campaigns and training programs that may be directly managed by CINDE, the following complementary activities which may be carried out by other private groups are under consideration. Studies to promote growth of export industry and foreign investment such as possibilities for new joint ventures, marketing studies, product profiles and free zone concepts are being proposed by the Costa Rican Chambers of Industry, Commerce and Exporters.

(c) CINDE Administration ($550,000)

Funding for CINDE's administrative expenses will cover salaries of the administrative and support staff, and the costs of the monitoring, auditing and consulting services related to the management and implementation of activities.

b. Rationale for Grant to CINDE

There are a number of reasons why the Mission feels that the local currency grant should be channeled through CINDE, rather

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1/ The A.D. Little Study, CENPRO: In the Context of a Strategy for Development of Exports from Costa Rica, October, 1982 cited that the key to solving Costa Rica's macroeconomic difficulties is in attracting new investment in the export industry, which in the short-term would be assembly industries, and in the medium-term would be agro-industrial and general manufacturing enterprises. This study, which is ANNEX IV of this PAAD, is in LAC/DR Official Bulk files.

than directly to the full range of implementing PVO's and cooperative organizations. First, working through CINDE permits a comprehensive approach to planning, coordinating, and managing grant-funded activities under this program, which the Mission believes will result in a greater impact than if these activities were handled on an individual basis. For example, CINDE will be in a position to identify a development problem, and to engage and coordinate the various specialized PVO or Cooperative organizations required to address and implement a solution.

In addition to the fact that CINDE will bring a comprehensive approach to handling the PVO/cooperative activities to be financed under this program, it will assume planning and mangement functions which would otherwise fall directly upon A.I.D., and for which the Mission is not now adequately staffed, nor does it expect to be in the foreseeable future. Using CINDE as an umbrella PVO will help minimize the management burden that this program will impose on the Mission. If these grant resources were not funneled through CINDE as proposed, the Mission feels that it would not be possible to carry out a CBI-funded PVO/Cooperative program in Costa Rica.

Because of its particular roots in the private, productive sector of Costa Rica, CINDE also offers a unique opportunity both to help develop private enterprise and to mobilize the private sector in stimulating social and economic developmemt. CINDE offers a particular ability to improve public-private sector cooperation in Costa Rica, and to facilitate the type of changes recommended in the A.D. Little report (ANNEX IV).

Finally, CINDE has been designated to have management responsibility of the Special Trust Fund generated from the reflows of the $5 million of local currency loaned to COFISA under the FY 1982 ESF program. The Special Trust Fund is intended to finance selected export/investment promotion efforts, and to further other objectives of the CBI. It is thus appropriate for CINDE to manage the local currency fund proposed under this program, in that many uses of the fund will be similar to those of the Special Trust Fund. In addition, the Mission views the Special Trust Fund as a future source of funding for CINDE activities; principal reflows from that Special Trust Fund are expected to begin after five years.

c. Justification for the ESF Grant

The activities described in Section IV.C.2.a(2), above are all private sector, PVO, and cooperative in nature. As they are to be carried out through the private non-profit sector, they must of necessity be grant funded. The requirement for grant funding is not due to the reluctance of the GOCR toward loan funding, but due to the fact that the GOCR constitutionally cannot donate public funds to private sector institutions without specific Legislative Assembly approval of each such transfer 1/. Even if this constraint did not exist, IMF limits on the GOCR deficit would prevent the government from incurring increased deficits for expenses in PVO and cooperative activities. In fact, if the amount to be granted to CINDE were loan funded through the GOCR, it would constitute 14.3% of the IMF - allowed GOCR deficit. Moreover, the Central Bank is not allowed by law, to donate any of its own capital, profits or borrowed resources to private institutions. Finally, any loan for purposes other than Central Bank relending would require ratification by the Legislative Assembly - a possibly prolonged exercise subject to the vagaries of the legislators 2/. Therefore, to be responsive to the CBI authorization bill which requires that particular emphasis be placed on using CBI local currency for PVO and cooperative activities, funds for such activities must be provided on a grant basis.

d. Management of Grant Funded Local Currency

The colones generated from the $12 million grant, which will be part of the initial $20 million disbursement will be deposited into a separate bank account of CINDE, which will administer and manage the local currency fund. Upon CINDE approving the proposal for a particular activity, Mission concurrence, and the signing an activity agreement with the implementing organization, funds will be transfered from CINDE's account to a specific account in the name of the implementing organization. Simple disbursement procedures, approved by A.I.D., will be established for the release of funds from these activity-specific accounts to the responsible organizations. CINDE will monitor project implementation, and will be subject to regular audit by a major U.S. accounting firm in order to verify that CINDE's own operations, and those of the implementing organizations, comply with approved financial and implementation plans.

D. Program Rationale

Support for Sections 103-106 of the FAA is provided by the local currency program. The Program's grant-funded activities will address such problems as: small farmer productivity and marketing; cooperatives development; nutritional needs of the poorest families; the need to identify means of accelerating economic growth and employment through

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1/ Loan-funding, even if possible, would not be desirable. The distribution of funds would become a political football, especially in the case of U.S. PVOs. Moreover, the Mission's recent experience with a GOCR-funded U.S. PVO suggests that the GOCR will attempt to use PVOs politically and subject them to inordinate Costa Rican public sector red tape.

2/ As a technical matter the Legislative Assembly could not even meet to discuss the transfer until January of 1983.

harnessing the private, productive sector; the need to promote the changes and investments required to achieve growth and equity through private sector development; and the development of responsible labor unions and constructive labor-management relations. These problems can, however, be effectively addressed only within the context of a stable economic environment, both internally and vis-a-vis the rest of the world. The foreign exchange and the loan-funded local currency credit provided by this program are intended to help create such an environment.

The resources which would be provided under the local currency grant also support Section 123 of the FAA in that they are channelled through PVO's/Cooperatives, and are directed towards improving the lives and incomes of the rural and urban poor - in particular, by stimulating the private sector and by increasing the opportunities of the poor to become producers, to obtain employment, and to receive needed training and better nutrition.

Each component of the proposed program also supports one or more of the objectives in the Mission's CBI Implementation Plan, which are listed in Section III.

1. Relationship of the Cash Transfer to CBI Objectives

The foreign exchange from the $70 million cash transfer provides direct support for the objectives of Economic Stabilization and Recovery; Strengthening of the Financial System; Improved Policy Formulation and Administrative Reform.

With respect to the objective of Economic Stabilization and Recovery, the program will help to relieve the current balance of payments crisis and internal constraints, and will help to reduce inflationary pressure from supply-side shortages, by providing foreign exchange for the purchase of certain critical goods. The effect of such improvements will also be to help reestablish international confidence in Costa Rica.

With respect to the objective of Strengthening the Financial System, President Monge has recently announced that he supports reform of the banking legislation which would permit private financial institutions to participate in Central Bank re-discounting. We have included as a CP to disbursement of the last two tranches, the requirement that the Central Bank approve, and submit to the Office of the President, a draft law providing for such a change.

With respect to the objective of Improved Policy Formulation and Administrative Reform, substantial foreign exchange input will provide authorities with the support needed to effect a number of essential policy and structural reforms described in the IMF Agreement and to be dealt with further by the IBRD Structural Adjustment Loan.

2. Relationship of Loan-Funded Local Currency Component to CBI Objectives

Local currency derived from the $58 million loan proposed under this program, provides direct support for the first three CBI objectives listed in Section III: Economic Stabilization and Recovery; Strengthening of the Financial System; and Expansion of Exports and Investment.

With respect to the objective of Economic Stabilization and Recovery, all major sectors of the Costa Rican economy have suffered from an acute shortage of working capital for more than two years. GDP has dropped, delinquency rates on outstanding bank loans have increased, and more businesses have failed or reduced operations, causing significant increases in unemployment. Increased credit generated from the A.I.D. loan will help to relieve this problem.

Local currency generated by the A.I.D. loan will also support the objective of Strengthening the Financial System, both through a special discount line to be established to private banks, and by generating progress towards legislative reform.

3. Relationship of Grant-Funded Local Currency Component to CBI Objectives

The CINDE local currency program provides direct support to three of the CBI objectives: Expansion of Exports and Investment, Improved Public-Private Sector Coordination, and Improved Policy Formulation and Administrative Reform.

A majority of CINDE activities will have a direct impact on increasing exports and investment, at the same time they increase employment and productivity.

Improved Policy Formulation and Administrative Reform, and Improved Public - Private Sector Coordination, are two objectives to which CINDE is uniquely qualified to contribute. The directors of CINDE are distinguished by their experience, civic - mindedness and reputation for integrity, as well as for their ability to command the attention of high level government officials, and leaders in the business and charitable communities. They view their role as not only advising on the identification, planning and implementation of specific activities, but as facilitators of the communication and actions required to bring about the development changes and growth Costa Rica needs.

V. CONDITIONS, COVENANTS AND SPECIAL PROVISIONS

The proposed program has been discussed with the BCCR and members of the banking system. The Mission believes that the program, as described in the PAAD, responds to the needs of Costa Rica.

A. Conditions

As a condition precedent for signing the Program Agreement, the Letter of Intent for the IMF Stand-by Agreement must be signed by the GOCR and the IMF.

Proposed conditions precedent to the initial disbursement of the loan and grant are:

1. An opinion of counsel acceptable to A.I.D. stating that the loan agreement has been duly authorized and/or ratified by and executed on behalf of the Central Bank of Costa Rica, and that it constitutes a valid and legally-binding obligation of the Central Bank of Costa Rica in accordance with all of its terms; and

2. A statement of the name of the person holding or acting in the office of the Central Bank of Costa Rica, and of any additional representatives, together with a specimen signature of each authorized person specified in such statement.

A proposed condition precedent to subsequent disbursements of the loan is:

Final agreement between the IMF and GOCR on an economic stabilization program approved by the IMF Board and signed.

A proposed condition precedent after February 1983 is:

Submission to the Legislative Assembly of an amendment to the Central Bank law to permit the participation of the private banks in the Central Bank's rediscount and other lending programs on an equal basis with public banks.

B. Covenants

In addition to these conditions, the Mission proposes that the Program Agreement include various covenants relating to the implementation of the program and policy changes which are necessary for the country's economic recovery effort to be successful. These covenants are as follows:

The Central Bank of Costa Rica will covenant:

1. To increase its allocation of foreign exchange resources to the National Banking System by not less than the dollar amount disbursed under the cash transfer, for purchase by private enterprises;

and to report to USAID/Costa Rica that such allocation was accomplished within three months of the termination of disbursement of the cash transfer;

2. To receive from A.I.D., promptly exchange for colones at the "free" bank exchange rate, and deposit in an account belonging to the Coalicion Costarricense de Iniciativas de Desarrollo (CINDE), all disbursements of the $12.0 million non-loan portion of the cash transfer to be used for social and economic development programs detailed in a subsidiary memorandum of agreement governing this article;

3. To provide resources equivalent to the dollar amount disbursed under the cash transfer for the importation from the United States of raw materials, intermediate goods, construction materials and spare parts needed by private enterprises in Costa Rica, and to report to USAID/Costa Rica that such provision was made within three months of the termination of disbursement of the cash transfer;

4. To maintain a system whereby producers earning foreign exchange through exports shall obtain access to preferential foreign currency exchange rates, as long as these exist, in order to procure imported raw materials, construction materials, intermediate goods and spare parts needed for continued production;

5. To move progressively, in the course of 1983, towards the unification of the inter-bank and free exchange rates, and to unify these rates by December 31, 1983;

6. To provide A.I.D. with copies of all reports to the IMF, as they are issued, on compliance with the stabilization program;

7. To establish prior to January 31, 1983, in form and substance satisfactory to A.I.D., with local currency generated from the sale of transferred dollars, a special credit line, similar to that established under AID Loan No. 515-K-037, to be used exclusively by private banks through which the colon equivalent of at least $10 million will be extended as credit to private producers and manufacturers;

8. To establish prior to January 31, 1983, in form and substance satisfactory to A.I.D., with local currency generated from the sale of transferred dollars, a special credit line of the colon equivalent of at least $5 million to be utilized exclusively for the provision of mortgage financing for families below or at the median income level through the Sistema Nacional de Ahorro y Préstamo (National Savings and Loan System); and

9. To permit an increase during 1983 of at least $43 million in colon equivalent for unsubsidized lending through the public commercial banks to the private sector for industry, agro-industry and agriculture.

10. To establish in form and substance satisfactory to A.I.D., reporting procedures on local currency credit resources (with the exception of the special credit line of the colon equivalent of $5.0 million for mortgage financing) to verify that eligible firms within the program of assistance to enterprise which the Government of Costa Rica is promoting, will qualify for local credit resources and to verify special emphasis is placed on lending to small and medium-size companies or cooperatives.

11. To assure that no assistance provided under the Program Agreement is used to finance activities that will cause serious injury, or threat thereof, to the production, marketing or pricing of U.S. agricultural commodities or products.

C. Special Provisions

Two special provisions pertaining to disbursements are also proposed:

1. A.I.D. reserves the right to suspend scheduled monthly disbursements in the event that the GOCR is not in substantial compliance with the IMF Agreement as determined by AID.

2. Cash transfer disbursements may not exceed the monthly disbursements indicated in the following schedule:

(Millions of U.S. Dollars)

	Loan	Grant	Total
Initial Disbursement	$ 8.0	$12.0	$20.0
Second Disbursement	$10.0	0	$10.0
Third Disbursement	$10.0	0	$10.0
Fourth Disbursement	$10.0	0	$10.0
Fifth Disbursement	$10.0	0	$10.0
Sixth Disbursement	$10.0	0	$10.0
TOTAL	$58.0	$12.0	$70.0

COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA SEC. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?	No.
3. FAA Sec. 620.(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropiating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No.
4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY1982 Appropiation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia,	No.

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Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.	N/A
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?	No.
7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	The Administrator has not considered such action.
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?	No.
(b) If so, has any deduction required by the Fishermen's Protective Act been made?	
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any A.I.D. loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?	No.
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the	Yes.

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amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

11. <u>FAA Sec. 620(t)</u>. Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No.

12. <u>FAA Sec. 620(u)</u>. What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determing the current A.I.D. Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)

Costa Rica was not among those countries whose arrearages it was deemed necessary be taken account by the AID Administrators in his "Taking Into Consideration Memorandum" in determining the current AID Operational Year Budget.

13. <u>FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520.</u> Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has commited an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No.

14. <u>FAA Sec. 666</u>. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No.

15. <u>FAA Sec. 669, 670</u>. Has the country, after August 3, 1977, deli-

No.

vered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 699 for Pakistan.)

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into consideration memo.) — No.

17. ISDCA of 1981 Sec. 721. See special requirments for assistance to Haiti. — N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of intenationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? — N/A

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally — No.

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recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

b. ISDCA of 1981, Sec. 725-(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Government of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interest of the U.S.? N/A

c. ISDCA of 1981, Sec. 726-(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Government pf Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Government of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? N/A

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projectes funded with Development Assistance loans, and B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; 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 amount?)

Additional notification is not required since assistance is authorized through the Caribbean Basin Initiative Supplemental Appropriation.

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

(a) N/A
(b) 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?

No such action is required.

4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for 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? (See AID Handbook 3 for new guidelines.)

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?

Yes.

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

No.

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 objectives of the assistance provided include increasing the flow of international trade fostering private initiative and competition; improving the technical efficiency of industry, agriculture and commerce; and strengthening free labor unions.

8. FAA Sec. 601(b). Information and conclusions 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 is specifically intended to enhance U.S. private investment in Costa Rica and to expand U.S. markets for Costa Rican products.

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9. FAA Sec. 612(b), 636(h); FY 1982 Appropriation Act Sec. 507. 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.

N/A

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 its release?

The U.S. does not own excess Costa Rican currency.

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. FY 1982 Appropriation Act Sec. 521. 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?

No.

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?

N/A

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 — N/A

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 of appropriate technology, spreading investment out from cities to small towns and rural area, 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 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? — N/A

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)? — N/A

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

e. <u>FAA Sec. 110(b)</u>. Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification statisfactory 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 A.I.D. dollar assistance of not less than $100,000, including related advisory, managerial and trainig services, and not undertaken as part of a project of a predominantly technical assistance character."

N/A

f. <u>FAA Sec. 122(b)</u>. 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?

N/A

g. <u>FAA Sec. 281(b)</u>. 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 institutional development; and supports civil education and training in skills required for effective participation in governmental processes essential to self-government.

N/A

2. <u>Development Assistance Project Criteria (Loans Only)</u>

a. <u>FAA Sec. 122(b)</u>. Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest.

N/A

b. <u>FAA Sec. 620(d)</u>. If assistance for any productive enter-

N/A

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prise 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(c) and (d). 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)? N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? N/A

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

c. FAA Sec. 534. Will ESF 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. 609. 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

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5C(3) STANDARD ITEM CHECKLIST

Listed below are the statuatoty items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?	Yes.
2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?	Yes.
3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company?	The country does not so discriminate.
4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a) If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.)	N/A
5. FAA Sec. 604 (g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas?	No.
6. FAA Sec. 603. Is the shipping excluded from compliance with	No.

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requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates?

7. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — Yes.

8. International Air Transport. Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes.

9. FY 1982 Appropriation Act Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — Yes.

B. Construction

1. FAA Sec. 601(d) If capital (e.g., construction) project, will U.S. engineering and professional services be used? — N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximun extent practicable? — N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the Cp)?

It will not.

C. Other Restrictions

1. FAA Sec. 122(b). If development loan, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter

N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

Yes.

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

Yes.

b. <u>FAA Sec. 620(q)</u>. To compensate owners for expropriated nationalized property? — Yes.

c. <u>FAA Sec. 660</u>. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — Yes.

d. <u>FAA Sec. 662</u>. For CIA activities? — Yes.

e. <u>FAA Sec. 636(i)</u>. For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — Yes.

f. <u>FY 1982 Appropriation Act, Sec. 503</u>. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — yes.

g. <u>FY 1982 Appropriation Act, Sec. 505</u>. To pay U.N. assessments, arrearages or dues? — Yes.

h. <u>FY 1982 Appropriation Act, Sec. 506</u>. To carry out provisons of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — Yes.

i. <u>FY 1982 Appropriation Act, Sec. 510</u>. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes.

j. <u>FY 1982 Appropriation Act, Sec. 511</u> Will assistance be provided for the purpose of aiding the efforts of the goverment of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — No.

k. <u>FY 1982 Appropriation Act, Sec. 515</u>. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?

Yes.

SUPPORTING TABLES, ECONOMIC ANALYSIS

Table No.	Description
1	Costa Rica: Balance of Payments (IMF)
2	Costa Rica: Balance of Payments Projections for 1982 - 83 (Joel)
3	Costa Rica: Gross Domestic Product at Constant Prices (IMF)
4	Costa Rica: Summary Operations of the Nonfinancial Public Sector (IMF)
5	Central Government Operations (GOCR)
6	Consumer Price Index, 1981
7	Consumer Price Index, 1982
8	Wholesale Price Index, 1981
9	Wholesale Price Index, 1982
10	Raw Material Imports to Costa Rica from the U.S. (GOCR)

TABLE 1

Table 8. Costa Rica: Balance of Payments 1/

(In millions of U.S. dollars)

		1979	1980	1981	1982	1983
I.	Current account	-558.6	-663.9	-409.2	-272.0	-285.0
	Merchandise trade	-454.8	-526.6	-183.6	100.0	135.0
	Exports, f.o.b.	942.1	1,000.9	1,029.7	1,010.0	1,085.0
	Imports, c.i.f.	-1,396.9	-1,527.5	-1,213.3	-910.0	-950.0
	Services	-116.0	-151.8	-252.0	-400.0	-465.0
	Other services	30.1	64.4	83.8	87.0	105.0
	Factor	-146.1	-216.2	-335.8	-487.0	-570.0
	Direct investment and private	(-16.6)	(-57.2)	(-27.9)	(-21.0)	(-25.0)
	Official interest	(-129.5)	(-159.0)	(-307.9)	(-466.0)	(-545.0)
	(Contractual: Paid)	/-129.5/	/-159.0/	/-160.3/	/-97.0/	/-374.0/
	(Contractual: Unpaid)	/--/	/--/	/-147.6/	/-258.0/	/--/
	(Interest on arrears)	/--/	/--/	/--/	/-111.0/	/-167.0/
	(Interest current principal)	/--/	/--/	/--/		/-4.0/
	Transfers	12.2	14.5	26.4	28.0	45.0
II.	Capital account	452.7	185.9	-61.0	-163.0	285.0
	Private (incl. net errors and omissions)	92.3	-125.8	-95.7	-63.0	--
	Official	360.5	311.7	34.7	-100.0	285.0
	Disbursements	(574.2)	(565.4)	(309.5)	(206.0)	(408.0)
	Repayments	(-213.8)	(-253.7)	(-274.8)	(-306.0)	(-235.0)
	(Contractual: Paid)	/-213.8/	/-253.7/	/-63.6/	/-86.0/	/-123.0/
	(Contractual: Unpaid)	/--/	/--/	/-211.2/	/-220.0/	/-112.0/
	Refinancing of current principal	--	--	--	--	112.0
III.	Other (SDRs revaluation and transaction with non-monetary agencies	23.5	22.3	5.4	--	--
IV.	Net international reserves (overall balance)	-82.4	-455.7	-464.8	-435.0	--
	Accumulation (+) of arrears Reduction (-) of arrears	--	283.0	358.8	589.0	-1,177.0
	(Principal)	(--)	(283.0)	(211.2)	(220.0)	(-708.0)
	(Interest)	(--)	(--)	(147.6)	(369.0)	(-469.0)
	Rescheduling of arrears	--	--	--	--	638.0
	(Principal)	(--)	(--)	(--)	(--)	(638.0)
	Repayment of arrears	--	--	--	-54.0	(...)
	(Principal)	(--)	(--)	(--)	(-6.0)	(...)
	(Interest)	(--)	(--)	(--)	(-48.0)	(...)
V.	Contingent financing (rescheduling/refinancing/ new loans)					539.0
VI.	△ Official reserves (- increase)	82.4	172.7	106.0	-100.0	

1/ See separate note for basic assumptions and calculations.

TABLE 2

**COSTA RICA: BALANCE OF PAYMENTS PROJECTION
ROR 1982-83
(In million of Dollars)**

	(1) 1981	(2) 1982	(3) 1983 With Arrears	(4) 1983 W/O Arrears
I. Current Account, Net	- 409.2	-322.0	- 370.0	- 370.0
Exports, FOB	1029.7	960.0	1000.0	1000.0
Imports, CIF	-1213.3	-910.0	-950.0	-950.0
Services, Net (including interest)	- 252.0	-400.0	- 465.0	- 465.0
Transfers, Net	26.4	28.0	45.0	45.0
II. Autonomous Capital Movement, Net	- 55.6	-203.7	- 43.2	- 43.2
Private Capital, Net	- 95.7	- 63.0	-	-
Official Disbursements	309.5	165.3	191.8	191.8
Repayments Due	- 274.8	-306.0	- 235.0	- 235.0
SDR Revaluation	5.4	-	-	-
III. Overall Balance	- 464.8	-525.7	- 413.2	- 413.2
IV. Financing of Deficit	358.8	578.0	- 152.0	387.0
Accumulation (+) or Reduction of Arrears (Int. & Principal)	358.8	589.0	-1177.0	-
Refinancing of Current Principal	-	-	112.0	112.0
Rescheduling of Arrears (Principal only +)	-	-	638.0	-
Repayment of Arrears (-)	-	- 54.0	-	-

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	(1) 1981	(2) 1982	(3) 1983 With Arrears	(4) 1983 W/O Arrears
Compensatory Financing	-	43.0	275.0	275.0
AID/ESF		(25.0)	(100.0)	(100.0)
PL 480		(18.0)	-	-
IMF	-	-	(100.0)	(100.0)
IBRD Structural Readjustment Loans		-	(75.0)	(75.0)
V. Decline in Net Int'l. Reserves (- increase) or Unfinanced Gap (III-IV)	106.0	- 52.3	565.2*	26.2

*To be covered mostly by refinancing of interest payments due.

Source: IMF projections adjusted by ROCAP Economic Advisor in consultation with Central bank.

Note added by Mission:

This Table omits FY 83 $20 million P.L. 480 Agreement signed October 30, 1982.

TABLE 3 */

Table 12.
Costa Rica: Gross Domestic Product at Constant Prices

	1977	1978	1979	1980	1981	Proj. 1982	Proj. 1983
(In millions of 1966 colones)							
Gross domestic product	8,587	9,125	9,576	9,648	9,208	8,664	8,664
Agriculture and related areas	1,629	1,736	1,745	1,736	1,757	1,817	1,837
Manufacturing and mining	1,893	2,048	2,103	2,120	2,040	1,908	1,866
Construction	483	511	609	603	533	320	340
Utilities	182	191	201	225	244	248	255
Commerce	1,653	1,723	1,794	1,741	1,419	1,166	1,170
Transport and communications	512	572	643	676	680	681	675
Financial services	410	444	486	500	477	486	500
Government	839	881	933	967	981	989	989
Other services	986	1,019	1,062	1,080	1,077	1,049	1,032
(Percentage distribution)							
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture and related areas	19.0	19.0	18.2	18.0	19.1	21.0	21.2
Manufacturing and mining	22.0	22.4	22.0	22.0	22.2	22.0	21.5
Construction	5.6	5.6	6.4	6.3	5.8	3.7	3.9
Utilities	2.1	2.1	2.1	2.3	2.6	2.9	2.9
Commerce	19.2	18.8	18.7	18.0	15.4	13.4	13.5
Transport and communications	6.0	6.3	6.7	7.0	7.4	7.9	7.8
Financial services	4.8	4.9	5.1	5.2	5.2	5.6	5.8
Government	9.8	9.7	9.7	10.0	10.6	11.4	11.4
Other services	11.5	11.2	11.1	11.2	11.7	12.1	11.9
(Percentage change from previous year)							
Gross domestic product	8.9	6.3	4.9	0.8	-4.6	-5.9	--
Agriculture and related areas	2.2	6.6	0.5	-0.5	1.2	3.4	1.1
Manufacturing and mining	12.7	8.2	2.7	0.8	-3.8	-6.5	-2.2
Construction	3.9	5.8	19.3	-1.0	-11.6	-40.0	6.3
Utilities	6.9	5.4	5.1	11.9	8.4	2.0	2.6
Commerce	17.9	4.2	4.1	-3.0	-18.5	-17.8	0.3
Transport and communications	12.0	11.7	12.4	5.2	0.6	0.1	-0.9
Financial services	7.8	8.3	9.5	2.9	-4.6	2.0	2.8
Government	5.0	5.0	5.9	3.6	1.4	0.8	--
Other services	5.1	3.3	4.2	1.7	-0.3	-2.6	-1.6

Source: Central Bank of Costa Rica.

*/ (Table 10 in Joel report)

TABLE 4*/

Table 2. Costa Rica: Summary Operations of the Nonfinancial Public Sector

(In millions of colones)

	1978	1979	1980	1981 Pro-gram 1/	1981 Actual	1981 "Reduced" Actual	Program 1982	Program 1983
Central Government	-1,458	-2,390	-3,297	-2,500	-2,989	-2,989	-3,460	-3,510
Current revenue	4,026	4,239	4,982	7,900	7,292	7,292	12,430	19,880
Expenditure (-)	-5,484	-6,629	-8,279	-10,400	-10,281	-10,281	-15,890	-23,390
Current (-)	(-4,276)	(-5,152)	(-6,349)	(-8,488)	(-8,168)	(-8,168)	(-13,210)	(-19,530)
Capital (-)	(-1,208)	(-1,477)	(-1,930)	(-1,912)	(-2,113)	(-2,113)	(-2,630)	(-3,860)
Rest of general government	-93	150	-491	-352	-599	-505 2/	-420	-630
Revenue	3,897	5,033	5,694	6,792	6,966	3,604	5,680	8,140
Current	(3,739)	(4,847)	(5,408)	(6,392)	(6,456)	(3,320)	(5,680)	(8,140)
Capital	(158)	(186)	(286)	(400)	(510)	(284)	(—)	(—)
Expenditure (-)	-3,990	-4,883	-6,185	-7,144	-7,565	4,109	-6,100	-8,770
Current (-)	(-3,319)	(-4,286)	(-5,025)	(-6,299)	(-6,042)	(-3,545)	(-5,690)	(-8,080)
Capital (-)	(-671)	(-597)	(-1,160)	(-845)	(-1,523) 7/	(-564)	(-410)	(-690)
State enterprises	-1,162	-1,872	-1,970	-2,398	-4,407	-4,403 3/	-5,710	-2,610
Current account surplus	200	-120	-116	784	-1,839	-1,891	-1,121	4,170
Capital revenue	26	171	52	150	759	747	220	311
Capital expenditure (-)	-1,388	-1,923	-1,906	-3,332	-3,327 8/	-3,259 8/	-4,809	-7,091
Consolidated public sector deficit	-2,713	-4,112	-5,758	-5,250	-7,995	...	-9,590	-6,750
Residual 4/	-331	82	554	—	-605		—	—
Overall financing	3,044	4,030	5,204	5,250	8,600		9,590	6,750
External	1,843	1,781	1,958	2,750	4,582		1,970	4,675 5/
Domestic	1,201	2,249	3,246	2,500	2,363		3,890	2,075
Banking system	(851)	(2,856)	(2,401)	(...)	(1,837)		(3,500)	(2,000)
Nonbank financial intermediaries	(-27)	(-64)	(80)	(...)	(19)			
Private sector	(65)	(-160)	(266)	(...)	(-76)		(390)	(75) 6/
Change in floating debt	(312)	(-383)	(499)	(...)	(583)			
Interest in arrears	(...)	(...)	(...)	(—)	1,655		3,730	—

Sources: General Comptroller's annual reports; Ministry of Finance; Central Bank of Costa Rica; and Fund staff estimates.

1/ As presented in EBS/81/123.
2/ Includes only the Social Security Institute.
3/ Includes ICE, RECOPE, CODESA, CNP, ICAA, FECOSA, and IDA.
4/ Includes differences arising from reporting on an accrual and actual basis as well as statistical discrepancies.
5/ Includes amortization of 10 per cent of current principal (₡ 350 million).
6/ Includes an increase in floating debt of ₡ 160 million.
7/ Increased by ₡ 240 million for valuation adjustment.
8/ [illegible]

*/ (Table 11 in Joel report)

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II. 7

TABLE 5*/

CT 9/20/82

Cuadro 15.

Operaciones del Gobierno Central

(En millones de colones)

	1981	Proyección 1982	Proyección 1983
Ingresos corrientes	7,292	12,430	19,880
Impuestos directos	1,555	2,860	3,655
Impuesto a la renta	(1,484)	(2,750) 1/	(3,490) 2/
Otros	(71)	(110)	(165) 3/
Impuestos indirectos	5,378	9,185	15,825
Ventas	(686)	(1,500) 4/	(5,400) 5/
Selectivos al consumo	(1,120)	(1,360) 6/	(2,670) 6/
Específicos al consumo 7/	(311)	(280)	(--)
Importaciones 8/	(859)	(965)	(1,270)
Ad valorem sobre exportaciones 9/	(706)	(1,670)	(2,180)
Banano	(1,080)	(1,610) 10/	(2,250) 11/
Café 12/	(339)	(755)	(1,065)
Diferencial cambiario	(5)	(800)	(600) 31/
Sobre vehículos	(35)	(45)	(190) 13/
Otros	(237)	(200)	(200)
Otros ingresos corrientes	359	385	400
Gastos corrientes	8,168	13,210	19,530
Sueldos y salarios	3,409	5,425 21/	7,625 22/
Bienes y servicios	378	800	1,200
Intereses	1,427	2,325	3,970 19/
Pagados	(908)	(1,330) 16/	(3,970)
No pagados	(519) 17/	(995) 18/	(--)
Transferencias	2,594	4,510 20/	6,535
Sector privado	(846)	(1,240)	(1,480)
Sector público	(1,729)	(3,125)	(4,920)
CCSS	/525/	/870/	/910/
Universidades	/830/	/1,150/	/1,600/
FERTICA	/--/	/130/	/140/
Por eliminación destino específico	/--/	/--/	/1,180/ 24/
Otros	/374/	/975/	/1,090/
Sector externo	(19)	(145)	(135) 25/
Otros gastos corrientes	360 26/	150 27/	200
Gastos de capital	2,113	2,680	3,860
Inversión real 23/	1,180	2,100	3,160
Transferencias	307	540	650
Otros gastos de capital	626 28/	40	50
Déficit o superávit total	-2,989	-3,460	-3,510
Financiamiento	2,989	3,460	3,510
Externo 29/	442	1,150	2,215
Interno 30/	2,028	1,315	1,295
No pago de intereses	519	995	--

*/(Table 13 in Joel report)

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Cont. Table 5

1/ En base a un aumento del 50 por ciento (observado durante los primeros 8 meses de 1982) y de una recaudación de ₡ 525 millones por sobretasa temporal.

2/ Con la misma elasticidad de las recaudaciones con respecto a precios observada en el primer semestre de 1982 (o.s., es decir, un aumento de 27.5 por ciento), más la recaudación esperada de la extensión de la sobretasa a 1983 (₡ 650 millones).

3/ Incluye ₡ 25 millones adicionales por modificación esperada por paquete tributario.

4/ En base a la recaudación de los primeros ocho meses del año.

5/ Ver Anexo A de la estimación del efecto del paquete tributario.

6/ Ver Anexo B de la estimación del efecto del paquete tributario.

7/ Incluye impuestos a la cerveza, otras bebidas alcóholicas, cemento, gaseosas, derivados de petróleo, y otros al consumo.

8/ Ver Cuadro __.

9/ Ver Cuadro __.

10/ Sobre la base de 53.8 millones de cajas exportadas, US$0.95 por caja de impuesto, tipo de cambio de ₡ 37 por US$, y una recaudación efectiva del 85 por ciento.

11/ Sobre la base de 57.5 millones de cajas exportadas, US$0.95 por caja de impuesto, tipo de cambio de ₡ 48.5 por US$, y una recaudación efectiva del 85 por ciento.

12/ Ver Cuadro __.

13/ De acuerdo con la reforma efectuada al impuesto al ruedo.

16/ Incluye ₡ 517 millones por deuda interna y US$20.9 millones (a ₡ 39 por US$) de acuerdo con estimaciones de BOP.

17/ US$23.6 millones a ₡ 22 por US$, de acuerdo con las estimaciones de BOP.

18/ Incluye US$26.2 millones a ₡ 38 por US$.

19/ Incluye ₡ 780 millones de deuda interna; US$57.8 millones en concepto de intereses contractuales (a ₡ 50 por US$), y US$6 millones por intereses no pagados en 1981 (US$23.6 millones) y en 1982 (US$26.2 millones), con una tasa de interés del 12 por ciento.

20/ De acuerdo con cuadros que acompañan el proyecto de presupuesto para 1983.

21/ Incluye tercera revaloración de Septiembre por ₡ 100 millones. Los aumentos de salarios en los últimos 2 años fueron los siguientes: 1/3/81, ₡ 500; 1/1/82, ₡ 1,300; 1/7/82, ₡ 1,000; y 1/9/82, ₡ 300 (por mes).

22/ Incluye dos aumentos de ₡ 1,000 mensuales, uno en Enero y el otro en Julio.

23/ Bajo el supuesto de que los desembolsos netos de préstamos del exterior del Gobierno Central serían de US$30.3 millones en 1982 y US$44.3 millones en 1983 (en 1981 fueron US$20.1 millones).

24/ ₡ 980 millones por impuesto a las ventas (corresponde a recaudación prevista para 1982), ₡ 175 millones al IDA; ₡ 21 millones al IFAM; y ₡ 4 millones al INFOCOOP.

25/ Incluye ₡ 133 millones de cuotas a organismos internacionales.

26/ Pérdidas cambiarias.

27/ Incluye ₡ 90 millones de pérdidas cambiarias.

28/ Incluye deuda asumida CNP por ₡ 199 millones y bonos CODESA por ₡ 335 millones.

29/ Fuente datos de deuda externa.

30/ Por residual.

31/ A la recaudación prevista para 1982 se le agregó un 50 por ciento (por cambio en el tipo de cambio) y de ese total se tomó el 50 por ciento bajo el supuesto de que la tasa bajaría de un 10 por ciento promedio a un 5 por ciento promedio.

TABLE 6*/

Table D.3

PRICE INDEX FOR LOW AND MIDDLE INCOME CONSUMERS

OF THE SAN JOSE METROPOLITAN AREA*

Base 1975 = 100

Year 1981

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Monthly Average
General Index	166.07	170.11	173.24	178.75	187.10	192.83	204.28	207.05	212.61	227.83	242.59	261.29	202.03
Food	175.08	178.90	180.46	188.62	192.71	200.05	219.53	221.73	229.58	254.19	268.76	288.38	216.50
Clothing	105.46	110.93	113.51	116.34	122.28	124.30	126.75	127.80	129.72	139.75	162.04	174.42	129.44
Housing	167.31	170.92	173.86	176.35	188.63	194.27	200.29	203.25	205.28	212.03	222.29	231.98	195.54
Miscellaneous	175.53	179.85	186.40	191.95	204.45	208.97	216.37	223.47	228.07	238.72	255.98	286.90	216.39

* Calculated by the GOCR Office of Statistics and Census.

Source: Central Bank

*/ (Table 21 in Joel report)

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BANCO CENTRAL DE COSTA RICA
DEPTO. INVESTIGACIONES Y ESTADISTICA
SECCION INDICES Y ESTADISTICA

TABLE 7 */

INDICE DE PRECIOS PARA LOS CONSUMIDORES DE INGRESOS MEDIOS Y BAJOS DEL AREA METROPOLITANA DE SAN JOSE 1/

Base 1975=100

Año 1982

	Enero	Febrero	Marzo	Abril	Mayo	Junio	Julio	Agosto	Setiembre	Octubre	Noviembre	Diciembre	Promedio mensual
INDICE GENERAL	286,90	296,54	315,64	328,58	344,65	367,36	406,78	421,42					
Alimentación	325,35	341,45	374,47	394,58	414,74	449,45	485,72	501,07					
Vestuario	195,11	205,12	218,45	226,55	231,49	237,90	247,65	258,40					
Vivienda	243,76	247,47	253,51	258,12	264,06	282,65	306,19	323,15					
Misceláneos	310,77	315,62	327,68	339,77	365,80	378,90	457,07	469,32					

1/ Calculado por la Dirección General de Estadística y Censos.

/vdec.-

*/(Table 22 in Joel report)

TABLE 8*/

Table D. S.

Wholesale Price Index

Base 1978=100

Year 1981

	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Monthly Average
General Index	172.66	178.87	185.94	200.88	219.48	227.27	234.71	242.41	252.13	284.21	316.09	333.38	237.34
Food Products Animal Origin	157.60	159.46	162.33	178.22	182.32	188.93	193.84	198.21	217.47	231.67	248.57	279.75	199.86
Food Products Vegetable Origin	133.52	141.41	142.18	148.70	156.25	169.74	184.55	185.85	191.14	211.15	227.13	245.94	178.13
Beverages and Other Foods	158.71	164.16	168.93	171.36	175.33	188.70	196.90	201.90	225.85	240.27	264.19	273.14	202.45
Fuels, Electricity and Water	282.18	283.33	293.81	337.68	391.35	395.17	399.30	405.11	405.11	412.34	421.43	423.09	370.82
Textiles and Leather Goods	156.50	159.43	167.11	179.00	202.64	217.92	227.68	242.35	244.72	267.62	313.35	358.02	228.03
Clothing and Shoes	138.10	145.42	155.35	165.80	175.65	180.23	190.92	194.96	201.93	253.94	285.90	289.98	198.26
Construction Materials	168.71	182.05	199.34	212.57	233.90	238.22	244.07	248.85	257.22	339.28	380.08	387.77	257.67
Chemical and Pharmaceutical Products	174. 1	183.43	191.70	207.52	237.78	242.19	243.72	257.70	264.86	311.49	387.02	418.49	260.04
Household Goods, Paper, Cigarrettes, and Others	166.52	171.07	176.72	191.15	210.92	215.03	221.95	244.84	250.29	289.81	337.60	357.75	236.14

Source: Central Bank

(Table 24 in Joel Report)*/

BANCO CENTRAL DE COSTA RICA
DEPTO. DE INVESTIGACIONES Y ESTADISTICA
SECCION DE INDICES Y ESTADISTICA

TABLE 9*/

INDICE DE PRECIOS AL POR MAYOR

Referencia 1978=100

Año 1982

	Enero	Febrero	Marzo	Abril	Mayo	Junio	Julio	Agosto	Setiembre	Octubre	Noviembre	Diciembre	Promedio mensual
INDICE GENERAL	363,65	384,10	411,57	432,11	456,00	467,99	531,61	553,84					
Productos alimenticios de origen animal	293,53	307,55	366,67	380,18	398,98	410,39	4[illegible]2,59	466,80					
Productos alimenticios de origen vegetal	286,14	313,04	320,44	342,91	354,88	371,19	422,13	447,03					
Bebidas y otros alimentos	290,38	307,56	340,04	354,61	405,05	424,18	437,69	462,24					
Combustibles, electricidad y agua	507,43	507,58	512,00	519,88	524,16	542,29	858,05	864,11					
Textiles y cueros	369,66	411,27	450,91	475,85	524,16	532,83	574,10	581,08					
Vestuario y calzado	299,29	330,20	347,11	355,58	368,60	371,50	393,05	409,24					
Materiales de construcción	423,40	436,25	461,43	503,18	546,85	535,51	566,01	573,51					
Productos químicos y farmacéuticos	441,97	482,13	505,29	523,12	543,86	564,53	605,62	632,73					
Productos para el hogar, papel, cigarrillos y otros	370,44	388,94	434,11	465,94	476,61	491,70	499,83	540,40					

sdep.-

(Table 25 in Joel report)

II

TABLE 10*/

MATERIA PRIMA -- IMPORTACIONES CIF
PROCEDENTES DE U.S.A.
(millones de dólares)

		1980	1981	Enero-Mayo 1982
0	Materiales de Construcción	22.2	18.3	4.4
1	Materia Prima para la Industria y la Minería	210.0	183.6	61.5
2	Materia Prima para la Agricultura	18.6	21.4	11.8
	TOTALES	250.8	223.3	77.7

Fuente: Dirección General de Estadística y Censos.

(Table 26 in Joel report)*/