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AGENCY FOR INTERNATIONAL DEVELOPMENT
UNITED STATES A. I. D. MISSION TO COSTA RICA

APO Miami, FL 33021
Telephone: 20-45-45
Telex 3550 AIDCR KR
Fax: (505) 20 34 34

MEMORANDUM

February 1, 1990

TO: LAC/DR
FROM: Carl Leonard, MDIR
USAID/Costa Rica

SUBJECT: Design Document for Costa Rican Export Promotion Fund

Enclosed is a preliminary design document covering selected aspects of the Mission's proposed Export Fund. It addresses AID/W issues which were raised during the recent Action Plan review, and which, we are told, will be set out in the forthcoming Action Plan cable.

We understand that AID/W will review the proposed Export Fund on Thursday, February 22. A member of Mission management and the Mission's private sector officer will travel to Washington to assist in the review.

Given the very tight deadline imposed by the forthcoming change of governments here, we hope that the review will be conducted on the scheduled date, and that a formal AID/W response will be received as soon as possible.

A

Clearances:

TD	David Losk	(In draft)
RDO	William Baucom	" "
CONT	Thomas Clarkson	" "
PRO	Richard Burke	" "
RDO	Lewis Lucke	" "
DDIR	Douglas Tinsler	" "

Preliminary Design Document:

COSTA RICAN EXPORT PROMOTION FUND (HCOLC)

USAID/Costa Rica

January 31, 1990

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TABLE OF ABBREVIATIONS

AID	Agency for International Development
AID/W	AID Headquarters in Washington
BCCR	Central Bank of Costa Rica
CAAP	CINDE's Private Agriculture and Agroindustry Council
CACM	Central American Common Market
CENPRO	Costa Rican Government Export Agency
CDSS	Country Development Strategy Statement
CINDE	Costa Rican Coalition for Initiatives in Development
DA	Development Assistance Account
ESF	Economic Support Fund
GOCR	Government of Costa Rica
HCOLC	Host-Country-Owned Local Currency
IA	USAID Implementation Annex to Programming Agreement
LAC	AID Bureau for Latin America and the Caribbean
LDC	Less Developed Country
NTE	Non-Traditional Export (outside Central American Common Market)
OE	Operating Expense Account
PA	Programming Agreement
PAAD	Program Assistance Approval Document
PID	Project Identification Document
PIE	CINDE Foreign Investment Promotion Program
PP	Project Paper
PROCAP	CINDE Training Program
SAL	World Bank Structural Adjustment Loan
USAID	AID Mission to Costa Rica

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Preliminary Design Document:

COSTA RICAN EXPORT PROMOTION FUND (HCOLC)

I. SCOPE OF THIS DOCUMENT

This paper is the "design document" which the Mission understands will be requested in the forthcoming Action Plan cable. (The relevant text, which has been communicated by telephone, is attached as Annex I.) Accordingly, the paper does not follow a Project Identification Document format: rather, it focuses on the specific topics suggested by AID/W. In particular, it presents in considerable detail the "mechanics" of the proposed Export Promotion Fund (structure of agreements, oversight responsibilities, administrative and financial controls, etc.). It concentrates heavily on mechanics because the structure of the proposed activity is unusual: a certain amount of new ground is being broken in areas where standard procedures and policies are still in a process of definition.

This is an action document. It requests AID/W approval in principle of the Fund described here, and delegation to the Mission of authority (1) to approve a "PP-like document" defining and justifying the activity, and (2), assuming such approval, to agree with the Government of Costa Rica (GOCR) to allocate to the Fund the equivalent of \$27.15 million in host-country-owned local currency (HCOLC) which has been made available in connection with the 1989 ESF program, and up to \$45 million in connection with future-year ESF programs, depending on the availability of funds.

II. SUMMARY DESCRIPTION OF THE EXPORT PROMOTION FUND PROPOSAL

A. The Problem

Growth of non-traditional exports (NTEs) to non-CACM markets is the only viable long-term solution to Costa Rica's balance-of-payments problems. Though further work remains to be done, the GOCR has already demonstrated its commitment to this structural transformation by adopting a broad range of politically difficult policy reforms, including exchange rate rationalization, financial liberalization, and reform of tariff, tax, and incentive structures. The private sector has responded with extraordinary NTE increases, averaging 32% per year since 1984.

Once the policy environment had been improved, a series of effective "operational" programs (export and investment promotion, etc.) was required in order to take maximum advantage of the new NTE environment.

The GOCR's promotional programs have generally been ineffective. Under the civil service regime, salaries were too low to attract high-quality staff able to deal effectively with sophisticated investors, and program directors repeatedly found that they lacked the flexibility necessary to motivate and manage their personnel. Moreover, given the nature of Costa Rican democracy, hiring, firing, and operational decisions have frequently been subject to political, rather than economic and technical, considerations.

It is worth noting that these problems are not unique to Costa Rica. A recent World Bank review of export promotion in thirty-five LDCs concluded that government trade promotion organizations have been next to useless, for reasons which include those described above.*

Recognizing these problems, the GOCR agreed with USAID that non-governmental promotion programs were needed. As a result, a non-profit private-sector promotional organization was established in 1982: the Costa Rican Coalition for Development Initiatives (CINDE). USAID began funding promotional operations of CINDE in 1983: CINDE's programs now include foreign investment promotion, agricultural export promotion, industrial reconversion for export, and export-oriented training. Despite a slow start, CINDE has been producing extraordinary results since late 1985 (cf. Section III.A, below, and Annex II).

The costs of CINDE's programs have been covered mainly by annual ESF-related local currency grants (equivalent to about \$9 million per year for 1989-90). However, it is expected that Costa Rica's ESF levels will decline very substantially over the next few years, so that continuation of the past pattern of year-by-year ESF funding will not be sustainable. The problem is how to secure the future financial sustainability of these programs (or such other export-promotion programs as may become appropriate in the future), while at the same time protecting their operational efficiency and technocratic independence.

B. The Proposal: an Export Promotion Fund

The solution which the GOCR proposed to the international donor community at the Consultative Group meeting in Paris last November is the establishment of an endowment fund.** Contributions of roughly \$110-120 million over several years would generate annual income sufficient to fund the promotional programs at existing levels, assuming that 20% of total costs would be covered by private contributions and user fees. (Section III.D below sketches alternative scenarios for sources and uses of funds.)

The Costa Rican Central Bank (BCCR) has already committed itself to annual contributions of 298 million colones (currently equivalent to about \$3.5 million) for twenty years, drawn from its interest spread on an export-oriented credit line.

It is expected that existing CINDE programs would receive the vast majority of Fund disbursements. However, to ensure continuing accountability, control of the Fund would not be lodged in CINDE. A Board of Directors appointed by donors and the GOCR would decide on periodic funding for programs of CINDE (or possibly other operating entities) based on performance against agreed targets. Thus, no operating program would ever be assured of long-term access to Fund disbursements.

* Donald B. Keesing and Andrew Singer, "What Goes Wrong in Official Promotion and Marketing Assistance for Manufactured Exports from Developing Countries", October 16, 1989 revised draft (available in LAC/DP). The only successful exceptions noted by the authors are found in the "Asian tigers".

** The AID delegation at the Consultative Group meeting expressed strong support for this proposal.

Following two years of operations, and every four years thereafter, the Fund will be evaluated in light of program performance and national needs. If appropriate, the Fund would be dissolved or its resources reallocated after any of these evaluations.

To avoid an undesirable impact on the country's money supply, the Fund corpus would be placed in BCCR monetary stabilization bonds. At a later time, if monetary prudence permits, part or all of the Fund could be placed at market rates with local private banks, thus allowing them to keep pace with the long-term finance requirements of the fast-growing NTE sector.

The general lines of this proposal were laid out in Annex F of the Mission's latest ESF PAAD, which was approved in April, 1989.

III. PRINCIPAL ISSUES*

A. Uses and Justification of the Fund

The proposed endowment represents a substantial sum of money. If one were talking about export promotion in the abstract, taking a flyer of this financial size would make little sense. However, the programs which would consume these resources are already in place. Their results are, in large part, a matter of demonstrated track record rather than hopeful speculation. Most of the administrative and managerial bugs in the programs have already been worked out.

A donor investment of this size would appear to be amply justified in terms of demonstrated return on investment. In four years, CINDE's largest program, PIE (foreign investment promotion), has generated about \$315 million in new NTE investment, yielding over \$230 million in new annual export capacity and over 30,000 new direct jobs.** Since most of these investment decisions began with a "cold call" by a CINDE overseas promoter, these results can be attributed to CINDE's efforts with more confidence than is usually the case with such programs. So far, the average promotional cost has been under \$400 per direct job created, a small fraction of the cost typical in similar programs elsewhere.

* The issues treated in this section include those whose discussion has been specifically requested by AID/W (cf. Annex I).

** It is somewhat difficult to measure indirect job generation. Experience in the Mexican border zones indicates that each new direct export job there has generated two additional indirect jobs. Some state investment promotion agencies in the U.S. use a figure of two and a half indirect jobs for each new direct job. A USAID study in the Dominican Republic estimated that four indirect jobs were generated by each five direct jobs in the free trade zones.

Perhaps the most striking statistic is that during 1989, PIE brought in roughly twice as much new hard currency for Costa Rica as did USAID, at a promotional cost of only \$16 for each \$1,000 of new investment. (Measured by this yardstick, CINDE's investment promotion efforts are roughly ten times more cost-effective than typical export-oriented credit lines.)

The CINDE training program (PROCAP) has provided courses for some 14,000 attendees, mainly mid- and upper-level export managers. A recent AID/W evaluation concluded that it was methodologically impossible to directly measure the additional exports produced by this training, but gave PROCAP very high marks in terms of course quality and user satisfaction.

CINDE's agricultural export unit (CAAP) is a younger program: among its accomplishments are a major improvement in the perishable air cargo system, establishment of Costa Rican strawberries as a significant factor in the U.S. off-season market (i.e. not in competition with U.S. producers), and the development of a promising asparagus industry in Costa Rica. CAAP's 1989 results, in terms of new hectares planted, new investment, and new exports shipped, have exceeded the targets which CAAP negotiated with the Mission at the beginning of the year. Implementation of these crop programs requires long lead times: thus, there is every reason to believe that these impacts will grow each succeeding year as the new programs swing into full operation. Recent independent evaluations by AID/W and others have been glowing.

The Industrial Development Program (Impulso Industrial) is a thirty-month experimental program of integrated diagnostic, technical, and marketing assistance to enable local industries to make the difficult switch to NTEs. After less than a year of start-up operations, it is too soon to pronounce on the experiment's success, though implementation experience has been promising so far.

Another candidate for (minor) funding would be CENPRO, the government agency whose recently-implemented "one-stop" window for processing of export documentation has substantially reduced red tape and delays. (Most of CENPRO's promotional activities have been handed over to CINDE; however, CENPRO retains an important regulatory role.)

[Further details on all these programs can be found in Annex II.]

In 1988, AID commissioned an economic analysis of CINDE's investment promotion activity as part of an intensive Checchi and Company evaluation. That analysis concluded that the economic rate of return was over 100% per year, without taking into account indirect job generation and other benefits. The Mission, however, has qualms about the methodology employed. In November of 1989, we decided that a more rigorous analysis was desirable, not because we were in any doubt that the rate of return was strongly positive, but because we wanted further data, especially with respect to the earnings impact on the new employees hired by the exporting firms.

The Mission is now contracting a cost-benefit analysis of economic returns for the activity under various scenarios. This analysis will focus heavily on the employees of the new export businesses which have been generated, including a survey to find out what they were doing and earning before they took their present jobs. The necessary survey work is unlikely to be concluded before the Mission approves a project-paper-like document for the Export Fund, though preliminary results may well be available.

In addition to demonstrated results so far, three other factors argue for a major investment in Costa Rican export promotion. Costa Rica's ample comparative advantages, in terms of political stability, educated and healthy workforce, and geography, make NTE promotion here a more promising avenue than in many other LDCs. And, as mentioned above, the GOCR has already demonstrated its commitment to this structural transformation by implementing, at considerable political cost, a package of policy reforms which have made a solid beginning in reducing existing constraints to exports. Finally, it is empirically demonstrable that the Costa Rican economy is superior to that of many other LDCs in spreading the benefits of export growth to the poorer levels of its population.*

B. Why Can't the GOCR or the Private Sector Pay for These Programs?

The notion of an endowment was one that the Mission was originally reluctant to support, for a pair of reasons. (1) We felt that giving any program a guaranteed lease on life would blunt the healthy pressure to justify future funding by continued results. (2) We thought that programs generating such substantial benefits ought to be able to attract sufficient support from the private sector and/or the GOCR.

The first concern -- accountability -- is largely obviated by the Fund structure proposed above. The second concern remains valid, but we have nevertheless come to be convinced that there is no practical alternative to an endowment.

As to private contributions or user fees, CINDE is now taking more serious measures to increase revenues from private sources. Under the proposed financial structure of the Fund, about 20% of the aggregate program costs would eventually have to come from the private sector (mainly in user fees for courses and technical assistance). This 20% probably represents the upper limit of what is attainable, for economic and practical reasons discussed in detail in the Five-Year Plan which CINDE submitted to AID/W in 1988. This would be a percentage considerably higher than what is being generated by any substantial AID-supported export program in the region at present. To the best of our knowledge, almost every country in the world which has export or investment promotion programs regards them as a "public good" in the economist's sense: because they generate large "external" benefits for the economy as a whole (i.e. benefits not captured by the direct beneficiaries), it makes good sense to invest resources in them beyond those which direct users are willing to pay.

* See, for example, Fields, Poverty, Inequality, and Development, Cambridge U. Press: 1980, pp. 181-239; Céspedes and Jiménez, Evolución de la Pobreza en Costa Rica, Academia de Centroamérica, passim; Fields, Employment and Economic Growth in Costa Rica, USAID/CR: 1985; and They et al., Costa Rica: Social Equity and Crisis, AID: 1988. These and other references are summarized in AID in Costa Rica: 1982-1992, the Mission's October, 1988 "Transition Paper" (available in LAC/DR).

Direct GOCR budget support of these programs might seem logical -- many other countries fund their export promotion programs this way. However, for reasons sketched above, we have become convinced that recourse to the GOCR budget process would inevitably lead to political inroads against the technocratic independence which has been crucial to the programs' success thus far. Besides, appropriated GOCR funding would entail application of the same civil service and other bureaucratic constraints which have crippled the effectiveness of almost all of the GOCR's recent efforts to mount promotional programs.

For precisely these reasons, the 1988 AID/W evaluation of CINDE recommended consideration of an endowment to fund these programs.

C. Would the Fund Be an Inappropriate Export Subsidy?

Subsidies to any sector of the economy run the risk of introducing inefficiencies by distorting the price signals which the market would otherwise generate. However, this is not a substantial risk in the case of the proposed Fund, for various reasons.

To begin with, there is a wide consensus that, even after the policy improvements of recent years, the Costa Rican economy still retains a significant anti-export bias, due to remaining protective tariffs, port inefficiencies, etc.* In such a context, providing compensatory support to exports is a sensible economic strategy, which has been applied successfully in Korea and other countries.

USAID and other donors are encouraging the GOCR in further reductions of this anti-export bias. The continued existence of residual anti-export bias will be reviewed in the quadrennial evaluations of the Fund: once such bias has been eliminated, reallocation of the Fund's resources should be considered, based on the country's needs at the time.

More importantly, the specific types of programs to be funded here are relatively non-distortionary. Tariff walls, tax breaks, and soft-interest loans are dangerous because they give a business long-term insulation against the competitive discipline of the marketplace. In contrast, CINDE's programs (see Annex II) consist for the most part of short-term, low-cost promotional and technical assistance support to new export projects in their start-up phase.** Once the recipient project is up and running, CINDE leaves it to float on its own bottom.

* See Monge and Corrales, Políticas de Protección e Incentivos a la Manufactura, Agroindustria y Algunos Sectores Agrícolas en Costa Rica, ECOFIN: 1988. The Mission has recently contracted one of the authors of this study to do an updated analysis; preliminary results indicate that a significant anti-export bias remains, despite considerable progress during the 1980's.

** The principal exception to this pattern is PROCAP, which provides training (mostly brief seminars) for export managers. PROCAP accounts for only about one tenth of CINDE's budget. Moreover, the GOCR and donors support training for all economic sectors; in this context, PROCAP's training support to non-traditional exporters is not distortionary.

By way of comparison, Costa Rica's tax rebate program for NTEs gives a company 15% of the value of its export shipments for an indefinite period.* The Export Fund, on the other hand, would provide short-term support for new projects in an amount of perhaps \$9 million per year, less than 1% of Costa Rica's projected average annual NTEs outside the CACM for the next five years. Section IIIA above sketched some of the impressive returns on this relatively modest investment.

Finally, rejection of this Fund as an inappropriate export subsidy would be tantamount to an abrupt reversal of AID's consistent strategy in Costa Rica since 1983. Support for NTEs has been a core component of Mission strategy, for compelling reasons which have been elaborated at length in CDSSs, PAADs, Project Papers, and Action Plans. The proposed Fund represents nothing more than a sustainable continuation, perhaps at lower operating levels, of the export promotion projects which the Mission has been supporting since 1983.

D. Funding Scenarios: Participation by Other Donors

Annex III contains financial projections for the Fund under two alternative scenarios. Both projections assume a 1990 ESF-related contribution of HCOLC equivalent to \$27.15 million. The projections differ in their funding assumptions for 1991-92:

- The "High-Funding Scenario" assumes a further ESF contribution in 1991 equivalent to \$45 million, and other donor contributions in 1992 equivalent to \$40 million (Annex III, p. 1; the delay in the other donor contributions reflects the possible requirement of legislative approval).
- The "Low-Funding Scenario" assumes that no contributions are forthcoming from other donors, and that the only further ESF-related contribution will be equivalent to \$35 million in 1991 (Annex III, p. 2).

Impact of Funding Variations on Operations. The following table summarizes the operating levels (including cost recovery) that would be sustainable under these two scenarios.

TOTAL LOCAL CURRENCY OPERATING LEVELS (Equivalent in 1989 US\$ million)

	<u>1989-90</u>	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>
Current Budget	8.75				
Low-Funding Scenario		8.3	7.6	6.9	6.9
High-Funding Scenario		10.5	10.5	10.5	10.5

* In compliance with the World Bank's Second Structural Adjustment Loan (SAL II), the GOCR has just announced substantial reductions in the NTE tax rebate rates to begin next year. It is likely that further reductions will be part of SAL III negotiations.

Under the Low Scenario, substantial reductions in real operating levels would have to be phased in over three years; given the nature of the promotion programs, there is no reason (other than proportional reduction in their impact) why they cannot be operated at lower levels. The High Scenario, on the other hand, would allow for a growth in local-currency funding sufficient to compensate for the termination in 1991 of two dollar-funded DA projects with CINDE (which together will disburse roughly \$2 million in 1990).

If the industrial reconversion pilot program (Impulso Industrial) turns out to be unsuccessful, it will be terminated in 1991 when its thirty-month experimental period ends. This would relieve the Export Fund of a burden of about \$1.5 million per year, thus easing the cuts necessary under the Low-Funding Scenario. Otherwise, the proportions of available funding assigned to each of the present programs would remain roughly the same under either funding scenario (with the exception that under the low scenario, overhead would probably rise modestly as a percentage of total costs: see Annex III, p.3).

Prospects of Other Donor Participation. It is too soon to tell whether -- and to what extent -- other donors will participate in the Export Fund. At last November's Consultative Group meeting in Paris, AID was the only donor to express a definite inclination to participate. We are told that several others indicated a willingness to proceed with further appraisal of the proposal. The GOCCR is presently inviting donors to participate in a late-March appraisal mission in Costa Rica.

In addition to the donors represented in the Consultative Group, the GOCCR has discussed the Export Fund proposal with representatives of the Government of Taiwan, which has a large aid program in Costa Rica. The Taiwanese ambassador has indicated definite interest in exploring Taiwanese participation. A Taiwanese contribution is especially attractive because their Economic Development Fund can make low-interest hard-currency loans to non-governmental entities; such a mechanism would avoid a lengthy process of legislative approval, and would diversify the Fund's asset base against the risk of extraordinary depreciation of the colon.

E. Reverse Accommodation

The costs of maintaining CINDE's overseas offices must be paid in hard currency. Since the source of funding for these offices has been principally in local currency, reverse accommodation by the BCCR has been required to obtain the necessary dollars: in 1989, for instance, the BCCR converted about \$180,000 per month for this purpose.

The BCCR has always been very willing to provide this accommodation (and in fact has repeatedly signed commitments to do so), for the simple reason that these hard-currency expenses are dwarfed by the hard-currency returns generated by the overseas offices. In 1989, for example, the BCCR's conversion of hard currency for CINDE was equivalent to only 1.1% of the hard-currency investment commitments, or 1.9% of the new annual export capacity, generated by the overseas offices.

This practice of hard-currency accommodation has previously been discussed with AID/W (see for example Section IV.D of the 1987 ESF PAAD, approved July 3, 1987).

The Mission believes that past practice in converting the costs of the overseas offices makes good sense from both policy and practical perspectives, and thus we strongly recommend its continuation. However, if this practice is now seen as presenting problems, a manageable alternative would be to prohibit the conversion of principal (ESF contributions) to dollars, and allow conversion only for interest generated (including BCCR interest-spread contributions). Such a requirement would entail two problems: (1) for reasons discussed in Section IV.H below, it would be preferable to draw all Fund disbursements from principal rather than interest during the early years; and (2) drawing conversions from interest only would complicate the Fund's accounting.

IV. MECHANICS OF THE FUND

A. General Considerations

Before descending to the details of the Fund's structure, it is important to underline a few essential considerations governing its design:

- The entire concept of the Fund is predicated on the proposition that that success of export promotion programs depends absolutely on insulating them from non-technical considerations in operations and staffing, for reasons discussed above. This consideration dictates the elaborate system of checks and balances which has been negotiated. With this factor in mind, the GOOCR has agreed that USAID (and, we hope, other donors) will have a significant role in naming Fund directors for an initial four-year implementation period. For the same reasons, USAID is willing to assume a moderately active role in monitoring of Fund operations during the first four years, even though this entails some initial staff burden.
- Over the longer haul, the Fund structure will minimize USAID's staff burden, because the Fund directors will take on the monitoring role which USAID has played in the past.
- The Mission would never have recommended creating a massive endowment to fund operating programs which had yet to be defined and tested. We are proposing this Fund only because the programs which it will finance (principally CINDE's) are already in place, have already worked out most of their administrative and managerial bugs, and have in the main already demonstrated impressive results. Thus, it is CINDE's systems and management capacity which will be the principal determinant of future success, rather than those of the Fund.
- At the same time, it would be undesirable to give CINDE (or any other promotional organization) a long-term guarantee of access to the Fund's resources: recipients must be kept in a position where they know that their future funding depends on continued production of results against agreed-upon targets. Thus, the Fund directors will be entirely independent of CINDE in exercising their oversight functions and financing decisions. (For technical reasons discussed below, CINDE will initially be the legal owner of the Fund, but will have no authority or responsibility whatsoever with respect to the Fund's operations.)

- Creation of the Fund entails an unavoidable negative consequence: the insertion, initially at least, of an additional level of bureaucracy into the funding chain. This consideration dictates an effort to minimize bureaucratic encumbrances on the Fund's operation, at least to the extent possible.
- The Fund structure will be established before other donors have had time to decide on their possible participation. Nevertheless, every effort is being made to design a structure which will be attractive to other donors, and in which they can participate with a minimum of adjustment.

B. HCOLC Guidance

The principal LAC guidance on programming of host-country-owned local currency (HCOLC) is contained in 88 STATE 224820 (attached as Annex IV).

This guidance cable sets forth procedures for five different categories of HCOLC programming. Of those five categories, it would appear that the one corresponding most closely with the Export Promotion Fund is Category IV, "Special Non-Governmental Development Activities", even though the fit is not perfect.

For this reason, the Mission does not propose to manage the activity through its Program Trust Fund account (which would be used for activities falling under Category V of the guidance). An even more compelling reason is that the GOCR has already indicated that it is categorically unwilling to have the Program Trust Fund used for this purpose, as they do not wish to delegate their authorities over the activity to USAID on a fiduciary basis.

The guidance cable did not provide procedural details for Category IV, but announced that "more guidance will be forthcoming with respect to this alternative..." We understand that AID/W is still in the process of considering this guidance.

In the absence of detailed guidance, this paper and its Annexes set forth at considerable length a proposed structure of administration, financial control, and oversight. This structure represents the Mission's best judgement, after extensive experience and analysis, as to a framework which will ensure the effective management of resources, and hold U.S. government oversight burden and exposure to the minimum which is consistent with attaining the purposes of the activity.

C. Structure of the Agreement

During last year's discussions with the GOCR, it had been assumed that the export promotion endowment would be structured as a trust, to be lodged with a new entity created for that purpose. A proposal was laid before the legislature late last year which would specifically give the executive branch general authority to create trusts.. However, the legislature failed to provide this general authorization.

Given the absence of specific legislative authority, the GOOCR indicated that they did not wish to structure the Fund as a trust; nor were they willing to participate in the creation of a new legal entity to house the Fund. They proposed an alternative structure with which they felt more comfortable.

At the end of 1988, the GOOCR had signed a Memorandum of Understanding with USAID and CINDE to fund CINDE's 1989-90 operations. That MOU created a "Separate Investment Account", whose dual function was (1) to allow interest to be earned on a lump-sum disbursement of ESF-related local currency, and (2) to receive additional contributions eventually destined for the Export Promotion Fund.* While CINDE was the legal owner of the Separate Investment Account, allocation and disbursement of its resources remained subject to USAID and GOOCR approval.

The GOOCR has now proposed that this Separate Investment Account should become the Export Promotion Fund. CINDE would technically remain the legal owner of the Fund; however, in the Programming Agreement which constitutes the Fund, CINDE will delegate all authority and responsibility concerning the Fund to a Board of Directors whose appointment would be controlled, not by CINDE, but by the GOOCR and the participating donors [PA 2.4]**.

D. Definition of Operating Programs to Be Funded

The Programming Agreement will contain an initial schedule of the types of programs to be funded, and the annual contribution level to be allocated to each type of program (e.g. "Foreign Investment Promotion – \$3.5 million per year"; etc.) The GOOCR may change the prevailing schedule from time to time, subject to the agreement of participating donors (except for donors who have waived this right at some previous point). [PA 4.1]

The five-person Board of Directors of the fund will have complete authority to select and oversee the operating agencies which will carry out the scheduled programs [PA 4.2a]. The Board will have discretion to vary scheduled annual funding levels for individual programs by up to 20% [PA 4.2b]. If the Board concludes at any time that a scheduled type of program is no longer feasible, due to technical or economic problems, it may decline further financing, and its decision can be reversed only by agreement between the GOOCR and the donors [PA 4.2e].

* CINDE's Separate Investment Account has been the initial repository for the annual BCCR contribution of C298 million mentioned above.

** The most recent draft of the Programming Agreement, and an English translation, are attached as Annexes V and VI. The GOOCR is now in the process of reviewing this draft; however, most of its contents have already been tentatively negotiated in a series of informal "Heads of Agreement" documents. Throughout the remainder of this paper, references to the draft Programming Agreement are by clause number.

E. Board of Directors

The Fund will be managed by a five-person Board of Directors, appointed for staggered five-year terms. The GOOCR will nominate the chairman of the Board. The donors will participate with the GOOCR in naming the other four Directors, in rough proportion to their contributions. The donors will be guaranteed that these four Directors named during the initial four-year implementation phase will be acceptable to them. After the first four years, naming of the four Directors will be by agreement between the GOOCR and the donors, with the post remaining vacant in the event of inability to agree. Directors can be removed at will, and without cause, by the party principally responsible for naming them. [6.1,6.2]

While the Programming Agreement does not specifically require it, the Board of Directors is expected to include only Costa Ricans, not representatives from donor organizations. The current GOOCR administration has indicated that they would probably not name a government official to the Board.

One of the Board members would be an Executive Director, who would devote half to full time to Fund operations. The other directors would serve without pay. Although the names of individuals cannot be mentioned at this time, two extraordinarily desirable candidates have indicated their possible interest in the Executive Director position.

In managing the Fund, the Board will be assisted by a small staff, consisting probably of the Executive Director, a senior assistant, a bookkeeper, and a secretary. It is possible, though not likely, that one further professional person might be needed to keep abreast of oversight requirements. The Fund's administrative costs will be limited to no more than 1% of annual Fund income, and subject to prior approval of annual budgets [PA 4.3o]. (This limit may have to be waived in early years, until the Fund corpus builds to its maximum amount.)

F. Fund Operations

Selection and Monitoring of Implementing Agencies. Following policies approved in advance by AID (and perhaps other donors), the Fund will select appropriate implementing agencies to carry out the activities mandated in the prevailing schedule of programs, and monitor their performance [IA 5]*. As discussed above, it is likely that most of the Fund's allocations will be to CINDE programs, at least as long as CINDE performance remains satisfactory.

The Fund's monitoring of implementing agencies would parallel USAID's current relationship with CINDE: given CINDE's institutional maturity, USAID's monitoring of CINDE local-currency-funded programs is now based primarily on assessment of performance against agreed targets, rather than detailed line-item budget approval.

* "IA" citations are to the USAID Implementation Annex to the Programming Agreement (Annex VI to this paper, pp. 15 ff.), which incorporates various specific financial and administrative requirements.

Financial Management of the Fund Corpus. The Programming Agreement will provide normal guidelines for investment and financial management of the Fund's Corpus [PA 4.3, 5.1, 5.2]. In addition, USAID will approve a written investment policy [IA 6].

Initially, Fund resources will be placed in BCCR Monetary Stabilization Bonds, to minimize their impact on the country's money supply. However, the BCCR has indicated that, as soon as monetary prudence permits, they would prefer that the funds be withdrawn from the BCCR [cf. PA 5.1]. At that time, it may be desirable to place part or all of the Fund's resources at market rates in private sector investments, especially deposits with private banks.

One of the great successes of the USAID/GOCR policy dialogue over the past eight years has been the growth of private banking (whose share of total banking system loan assets grew from 2% in 1982 to 26% last year). Because of the superior efficiency of the private banks, about three quarters of the new non-traditional exporters have sought their finance from this source. Nevertheless, given the remaining financial policy constraints, private banks will face a severe challenge in maintaining their share in this NTE market which is growing at 32% a year. Access to the resources of the Export Promotion Fund would be a major factor in assisting the private banks to meet this challenge.

This aspect of the Fund's operations makes it essential that the Fund have, or have access to, substantial expertise in financial management and in Costa Rican financial markets. Recruiting suitably skilled Costa Ricans is expected to pose no problem, in light of the Mission's extensive contacts and past activities in these areas.

Studies and Conferences. In general, no export promotion activities would be implemented or contracted directly by the Fund, with the single exception that the Fund will be authorized to commission studies or conferences on matters relating to Costa Rican export strategy, either at its own initiative or at the request of the GOCR. However, these activities would be of modest scope, not to exceed 2% of the Fund's annual income. [PA 4.2d]

G. Administrative and Financial Controls; Other AID Requirements

Financial Controls and Systems. The Mission will assist in, and exercise prior approval over, the design of the Fund's financial systems, including its cash management and disbursement policies* [IA 2, 3]. Financial controls of implementing agencies financed by the Fund will be subject to a pre-qualification review, under standards approved by USAID [IA 4].

*The Mission will assign an exceptionally qualified contractor to this task. This individual is a CPA who was previously the chief financial officer of a \$135 million-per-year Central American conglomerate; he has already done an outstanding job in assisting CINDE in strengthening its financial and administrative systems.

As a practical matter, CINDE will be the only implementing agency, at least initially.* The high quality of CINDE's financial and administrative systems is reflected in recent audits and USAID Controller reviews, which have found no material exceptions.

Audits. All operations of the Fund and the programs it finances will be subject to annual independent audits, certifying not only the accuracy of financial statements, but also the adequacy of financial, administrative, and procurement systems, as well as compliance with the terms of governing agreements.

These audits will be conducted by public accounting firms chosen from a short list approved by the GOOCR and USAID. Based on the Mission's extensive past work with local accounting firms, the list will probably be limited to the local affiliates of Peat Marwick, Price Waterhouse, and at most one or two more. USAID will furnish the scopes of work for the audits, which will largely follow our standard non-federal audit scope of work. [PA 4.3q,r; 9.1]

In addition to the regular annual audits, AID will retain full rights to conduct any other reasonable audits or evaluations of the Fund and the operating programs it finances [IA 1, 13a].

Procurement and Personnel. The Fund will be doing relatively little procurement and will have a very small staff. If it wishes to do its own procurement, or to hire its own staff directly, USAID approval of procurement and personnel manuals will be required. More probably, the Fund will use some outside organization to provide these functions. In this latter case USAID approval of the outside organization will be required, based on the quality of its established procurement and personnel systems. [IA 7,8]

Approval of the systems of such an outside organization is not likely to present a significant burden for the Mission, since it would probably be an accounting firm or perhaps CINDE.

The benchmark against which procurement systems are measured would be prudent and customary business practice, relying to the extent possible on competitive procurement [IA8, 13e].

USAID's DA source/origin requirements would not be applied to the Fund or the implementing agencies it finances, because this is a non-trust-fund HCOLC activity, and because such requirements would almost certainly be unacceptable to other donors.

* In the case of the small allocations for CENPRO, the GOOCR's export agency, past practice would probably continue: CINDE handles all procurement and accounting.

Other USAID Requirements. The resources of the Fund will not be used to supplement the salary of any GOOCR official, or to pay for fund-raising [IA 11, 12, 13f,g].

The Board of Directors will be required to take all reasonable steps to assure that the methods of compensating Fund personnel, and the Fund's retention and payment of taxes on such compensation, are fully in accord with Costa Rican law [IA 10].

Travel per diem rates paid from resources of the Fund will be limited to reasonable and customary business practice, not to exceed prevailing GOOCR rates [IA 9, 13c].

The provisions of the Lautenberg and Bumpers Amendments would not be applied to Fund resources, given the indirect nature of the assistance and the desirability of participation by other donors.

Environmental clearances would not be required, because the activities to be financed (marketing, technical assistance, and training) do not entail serious risk of environmental damage.

H. USAID Monitoring Responsibilities; Staff Burden

USAID Responsibilities. Article IX of the draft Programming Agreement specifies USAID's responsibilities through 1994 [PA 9.1]:

"(a) Monitor the results of the Fund and the activities it finances." (USAID's monitoring methods will be discussed below.)

"(b) Take steps to resolve, or to assist in resolving, such problems as may arise, including deficiencies or irregularities noted in audit reports."

"(c) Review and approve budgets presented by the Board of Directors..., and the scopes of work to be used for audits...."

"(d) Resolve with the Board of Directors interpretations of the clauses of [the] agreement...." (This clause refers to the customary process of executing Project Implementation Letters; the text goes on to describe a procedure for consultation with the GOOCR.)

The next clause of the draft agreement [PA 9.2] incorporates the USAID Implementation Annex, most of whose provisions were summarized above. The USAID responsibilities provided there include approval of the Fund's financial systems, disbursement policy, pre-award qualification standards, policy on grantee selection and oversight, investment policy, and possibly procurement and personnel systems.

USAID will exercise these monitoring responsibilities through the end of 1994, at which point the parties will negotiate elimination or reallocation of monitoring requirements. At that time it is intended that USAID responsibilities would be very substantially reduced, either through elimination of certain requirements, or through handing off remaining responsibilities to local parties (including possibly private sector organizations or the GOCR).*

Nevertheless, we have concluded that it would not be prudent to specify the eventual readjustment of monitoring responsibilities right now; it is better to leave options open. What degree of monitoring is appropriate in 1995, and by whom, will inevitably depend on implementation experience during the first four years. Assuming that the Fund's systems are up and running by then, and that program results continue to be satisfactory, many of the monitoring requirements could be eliminated. Assuming that a tradition of technocratic independence for the Fund is well established, involvement by USAID (and/or other donors) will be less necessary as a counterweight to possible political influence.

In addition to the monitoring responsibilities covered above in this section, USAID will have the right to participate in naming of Directors, in any changes of the general schedule of types of promotion programs to be funded, and in the quadrennial evaluations. Here again, implementation experience during the first four years may well permit a reallocation of USAID's involvement.

Monitoring of Program Results. During the initial implementation period, a full-time Mission contractor will work closely with the Fund and the promotional programs it finances. This individual will be in a position to stay current on the state of program results. Mission review and (if appropriate) independent audit of the Fund's semiannual reporting on accomplishments will provide another avenue for supervision. Periodic full-blown evaluations will provide a third avenue.

During the first four years, the Mission would include the Fund's operations in the Semi-Annual Review cycle, thus keeping AID/W advised of progress.

Evaluation. In addition to the quadrennial evaluations required under the draft Programming Agreement [PA 10.1], USAID would conduct an evaluation in early 1993, after two years of Fund operations.

* To the extent possible, the Fund's disbursements will be drawn from principal, not interest, until the original principal is exhausted. The reason for this policy is to maximize USAID's flexibility in withdrawing from active monitoring in later years.

USAID Staff Burden. The Mission is already in a process of paring back the management resources it is committing to export promotion programs. The proposed Fund structure represents a continuation of that process.

At the present time, the Mission devotes the equivalent of two and three-quarters full-time technical office staff to direct interaction with CINDE. As the Fund gets up and running, we will probably be able to reduce this very substantially, perhaps to the equivalent of one and one-quarter full-time persons.*

The present and projected future staffing is as follows:

- The Chief of the Private Sector Office now spends roughly half of his time on export promotion programs. Since most of this time is dedicated to design and negotiation of the Export Promotion Fund, we expect this burden to be roughly halved as the Fund gets up and running.
- A resident American contractor has been spending full time on strengthening of CINDE financial and administrative systems, and, to a much lesser extent, on monitoring the foreign investment promotion program (PIE). His work on CINDE systems is now practically complete. He will soon be reassigned to the Fund: his initial task, assisting with the establishment of the Fund's financial and other systems, should be well in hand by the beginning of 1991, at which point he would be able to devote major attention to assisting the Fund Directors in monitoring of the programs which the Fund will then begin to finance.
- A half-time American contractor has been providing liaison with PROCAP, the CINDE training program. Most of her time is devoted to administration of the Mission's DA project with PROCAP (#515-0212), which will terminate in 1991, at which time her services would no longer be required.
- CINDE's agricultural export program, CAAP, currently occupies about 10% of the time of the Chief of the Mission's Rural Development Office, and about two thirds of the time of one of his Costa Rican staff. Most of this time is dedicated to a DA project (NETS, #515-0237) which terminates in August of 1991. After that point, CAAP would not require substantial involvement from Mission staff.
- A Costa Rican employee of the Mission now spends about half his time in monitoring Impulso Industrial, CINDE's experimental industrial reconversion program. When the thirty-month experimental period expires in mid-1991, this involvement will be discontinued, either because Impulso is up and running, or because the program has been terminated.

* AID/W's recent intensive evaluation of CINDE recommended such a reduction in USAID personnel monitoring CINDE.

In effect, much of the Mission's present management burden will have been shifted to the staff of the Fund, and to independent audits and evaluations.

In this context, it should be noted that there is a clear understanding between USAID and the GOCR that USAID is not assuming the position of a fiduciary with respect to GOCR-owned resources. As mentioned above, the government has indicated that it would be unwilling in any event to enter into such a fiduciary delegation of its Fund-related responsibilities to USAID.

V. ACTION REQUESTED

The Mission requests that AID/W delegate to USAID/Costa Rica the authority to approve a "PP-like document" for the Export Promotion Fund described in this paper, and contingent on that approval, to agree with the GOCR on the programming of

- (1) The equivalent of up to \$27.15 million in HCOLC made available in connection with the 1989 ESF program; and
- (2) Depending on the availability of funds, the equivalent of up to \$45 million in HCOLC made available in connection with future ESF programs through 1991.

The structure described in this paper is in an advanced stage of discussion, and the Mission expects to be able to sign a final agreement on substantially the terms described in this paper and its Annexes. However, it is possible that changes in some details may be required during the process of final negotiation and program implementation. The Mission requests that it be allowed leeway to agree to such changes as necessary, subject to a requirement of prior AID/W approval of any departure from the following elements:

- (1) Control of the Fund will be kept independent of CINDE.
- (2) Resources not required for current operations will be kept in non-monetized instruments, until such time as the BCCR agrees to monetization of the resources.
- (3) The Fund will be evaluated after two years of operation, and at least every four years thereafter; based on the results of such evaluations, a decision will be taken in the light of Fund performance and the country's needs as to whether to continue, reorient, or terminate the Fund.
- (4) The Fund will not be managed through the Mission's Program Trust Fund account.

- (5) At the end of the initial four-year implementation period, the Mission will exert its best efforts to reduce its involvement in the Fund to the minimum prudent level.
- (6) Annual independent audits of the Fund and the programs it finances will be required; moreover, USAID will retain general audit and evaluation rights with respect to the Fund and the programs it finances.
- (7) The Fund Directors will be required to take all reasonable steps to assure that compensation of Fund employees or consultants is in accord with Costa Rican tax law.
- (8) Fund resources will not be used to pay salary supplements to GOCR employees.
- (9) Fund resources will not be used to pay fund-raising costs, unless USAID (with AID/W approval) agrees otherwise in writing.
- (10) Any other restrictions which AID/W requires in response to this paper, including restrictions on reverse accommodation, will be observed.

Annex I

AID/W Guidance on Design Document

The Mission was informed by telephone on January 22, 1990 that the forthcoming Action Plan cable would probably request a "Design Document" on the Export Promotion Fund which, in addition to discussing the mechanics of the Fund, would cover the following elements:

- "A clear description of what the Fund will do and how resources will be utilized for both investment and export promotion;
- "A description of why the Fund should not be considered an export subsidy, including a discussion of firm-level assistance;
- "an analysis of total resources required to generate sufficient interest earnings to fund the desired program;
- "an analysis of other donor support and cash flow scenarios given varied levels of support; and
- "an analysis and justification of local currency conversion requirements for foreign exchange costs of the program, with the understanding that AID/W will not support Mission using HCOLC generations directly associated with the FY 89 ESF program for such purposes."

COSTA RICAN EXPORT PROMOTION PROGRAMS

The Costa Rican Investment Promotion Program (PIE)

The Investment Promotion Program (PIE) at CINDE was created to enhance the country's capability in attracting foreign investment in non-traditional exports.

Initial efforts (mid-1983 to mid-1985) were based on a "shotgun" strategy which is widely used elsewhere: trade shows, investment missions, advertising, etc. Results were disappointing.

At the end of 1985 the program was completely reorganized. With technical assistance from the Irish Industrial Development Agency, a much more targeted strategy was adopted. PIE set ambitious five-year targets for generation of new employment, investments, and exports. In the four years since this reorganization, PIE has already exceeded these targets by far, and has established itself as the most cost-effective program of its kind in the world: average promotional cost per job created has been less than \$400, a small fraction of comparable costs in other countries' programs.

PIE has established seven offices overseas (four in the U.S., two in Europe, and one in Asia) covering nineteen countries. Based on sophisticated sector analysis, potential investing companies are targeted individually. Highly qualified Costa Rican promoters approach these companies, armed with a data base which allows the promoters to provide instant and reliable cost projections for the companies' potential operations in Costa Rica. This marketing structure has generated investor visits (paid for by the investor) which increased from 220 in 1986 to 473 in 1989.

When the potential investor arrives in Costa Rica, the PIE local staff structures a custom-designed itinerary which puts the investor in touch with a wide range of relevant local contacts, including especially other businesses which are already operating successfully in the sector of the investor's interest. Intensive support continues up to the point at which the investor reaches a decision and begins establishing a Costa Rican facility.

By the end of 1989, total new investments committed as a result of this process had exceeded \$315 million. [It is worth noting that during 1989, PIE brought in about twice as much new hard currency for Costa Rica as did USAID.] PIE's role in these investments has been crucial: in two thirds of the cases, the investor's decision process began with a cold call by the PIE overseas promoter, leaving little room for doubt that the investment would not have occurred absent PIE's efforts.

These investments represent roughly \$230 million per year in new export capacity, and new direct* employment of about 31,000 persons. This latter figure is double the five-year target PIE set at the end of 1985, and amounts to about 2.7% of the country's entire labor force. Most of these jobs go to persons from the lower levels of the Costa Rican income distribution. Interestingly, the new industries promoted by PIE employ women in substantially higher proportions than does the industrial sector at large.

Initially, most of the new investment came in the apparel sector. But from its inception, PIE has struggled to diversify its investment generation into more sophisticated activities which bring Costa Rica greater benefits in terms of local value added, technology transfer, and backward and forward linkages to the economy at large. Thus, PIE has been able to increase its non-apparel investment from 18% in 1986 to 91% in 1990; the gains have been spread among other sectors such as electronics, plastics, metalworking, agriculture, and tourism.

Given Costa Rica's recent return to relatively full employment, one of PIE's current targets is to increase the productivity of each job. PIE's investment-per-job index has risen from about \$5,000 in 1986 to over \$20,000 in 1988. The average annual export capacity per job generated has doubled from about \$6,000 in 1986 to almost \$12,000 for 1989.

Though their principal focus is promotion of direct investments, PIE's overseas promoters have also been successful in generating export contracts for Costa Rican firms. Exports shipped thus far under those contracts have exceeded \$42 million.

In addition to its direct promotional operations, PIE has played a substantial role in encouraging certain policy improvements, most notably the increased availability of licenses for private free zone developers.

A recent intensive AID/W evaluation gave PIE extraordinarily high marks.

The Private Agricultural and Agroindustrial Council (CAAP)

In 1988 Costa Rican agriculture generated 18% of GNP and 78% of exports. Recognizing the importance of this sector, public and private representatives began discussions in 1985 on a new initiative to tap agriculture's potential in support of the country's drive to expand non-traditional exports. These discussions resulted in the 1986 creation of CAAP as the agricultural program within CINDE.

* It is somewhat difficult to measure indirect job generation. Experience in the Mexican border zones indicates that each new direct export job there has generated two additional indirect jobs. Some state investment promotion agencies in the U.S. use a figure of two and a half indirect jobs for each new direct job. A USAID study in the Dominican Republic estimated that four indirect jobs were generated by each five direct jobs in the free trade zones.

CAAP's mission is expansion of non-traditional agricultural exports to markets outside of Central America. It pursues this mission through

- (1) analysis and reform of policies and institutions,
- (2) identification and technical support of new export opportunities, and
- (3) marketing support.

Analysis and Reform of Policies and Institutions. Through analysis of issues restricting the development of the sector, CAAP assists the government and private producers in fostering an environment conducive to investment and production. For example,

- CAAP interventions led to significant improvements in air cargo terminal infrastructure and administration at Costa Rica's principal airport. As a result, air cargo flights to third (i.e. non-CACM) markets have been able to increase from five per week to twenty-six per week over the past three years.
- A major CAAP program assists exporters in preventing infiltration of illegal drugs into their shipments, in coordination with a broad government effort. Such a program is necessary in order to avoid serious obstacles in the processing of Costa Rican shipments in foreign ports.
- A pesticide training program is being mounted for non-traditional crops to assure worker safety and compliance with international agrochemical regulations.
- CAAP is coordinating a task force to address maritime transportation, which threatens to become an increasing constraint to expansion of non-traditional exports.

Identification and Technical Support of New Export Opportunities. Through a series of market-driven studies, CAAP has identified a number of crops in which Costa Rica can serve established markets at competitive prices while meeting international quality requirements. For nine of these products, CAAP has developed technical assistance programs including research, technical advice, post-harvest handling, packaging, market and pricing information systems, observational travel to producing countries, and extension and training. Among results to date are the following:

- Costa Rican strawberries have become an important factor in the U.S. off-season market.
- A new asparagus industry is being established whose potential appears excellent.
- A new industrial tomato industry is being created.

- Costa Rica's ornamental plants are now a leading factor in world markets.*
- Costa Rican melon exports to the off-season U.S. market are booming.

Other CAAP technical programs include development of improved chayote stock to maintain Costa Rica's strong market position; research to establish quarantine programs for fresh papaya and mango exports to the U.S. market; and provision of laboratory equipment to a local university to upgrade soil and foliage analysis, thereby improving the reliability and speed of tests which are crucial to non-traditional crop expansion. These technical programs are coordinated with government programs where appropriate.

Marketing Assistance. In early 1989, CAAP and CENPRO (the GOCR export agency) reached an agreement to join forces in the promotion of non-traditional agricultural exports: CENPRO's agricultural division was merged with CAAP's marketing division to form one unit within CINDE.

The CAAP/CENPRO marketing program includes overseas trade promotion offices, domestic investment promotion, market information systems, and communication programs. Integrated marketing strategies are being developed for each target crop which has been identified. The CAAP/CENPRO office in Miami has been particularly effective in providing an agile trouble-shooting capability for shipments from Costa Rica.

1989 Results. In 1989, based on preliminary reports, CAAP was responsible for

- 1,380 hectares of new non-traditional crops (more than double its annual target);
- Over \$16,000 in additional exports shipped (more than four times its target); and
- Over \$35 million in new export capacity (almost triple its target).**

Establishment of crop programs require long lead times. Thus, there is every reason to believe that these impacts will grow each succeeding year as more programs swing into full operation.

CAAP's programs have been strongly praised by AID/W's recent evaluation of CINDE, two subsequent independent evaluations, and the project manager of ROCAP's highly successful PROEXAG project, which works closely with CAAP.

* CAAP does not work with exporters of leatherleaf fern, whose products compete with U.S. fern exports.

** USAID has not yet had time to evaluate these results independently.

The Export Training Program (PROCAP)

Costa Rica recognized in the early 1980's that lack of adequately trained technical and executive personnel could undermine its drive for sustained, export-led growth. This recognition led in September, 1984 to the establishment of PROCAP as CINDE's training division. Supported by USAID dollar projects and local currency funding through CINDE, PROCAP provides training, in Costa Rica and abroad, for Costa Rican professionals and technicians in the non-traditional export sector, as well as smaller programs for the financial and university sectors.

PROCAP's early years were dedicated to in-country training priorities. Likely shortages of trained personnel were identified by a series of sector and sub-sector analyses. Moving from this analytic base, PROCAP coordinated with existing training institutions to establish courses and workshops to meet the likely needs. In cases where existing institutions were unable to offer the required training, PROCAP took the lead by organizing the training activity itself. PROCAP's in-country training has reached about 8,000 persons to date, exceeding its project targets.

A second -- and later -- component provides long-term training abroad for Masters and Ph.D. level candidates from the Central Bank and universities in areas which support future needs of the non-traditional export sector. Thus far twenty-seven candidates have been sent abroad for study in such fields as international finance, production statistics, food science, telecommunications, and advanced wood technology.

PROCAP is currently implementing a third project component: short-term technical training abroad. For the export sector, this training will expose key personnel to new production technology as well as foreign export and business practice, and will give participants a better understanding of potential markets. Financial sector participants receive on-the-job training in foreign financial institutions. University participants receive state-of-the-art technological training augmented by hands-on work experience. To date, 200 of the targeted total of 311 participants have been trained under this component.

In addition to the above dollar-funded projects, PROCAP manages a local-currency funded program in mid-level skills training, which has provided courses or workshops for 6,000 persons so far.

A recent AID/W survey and evaluation concluded that quality of PROCAP training and participants' level of satisfaction was extraordinarily high.

The Industrial Development Program (IDP)

This experimental program, called Impulso Industrial in Spanish, is a newly-developed effort to promote expansion of non-traditional exports by the Costa Rican industrial sector, which is being placed under increasing pressure by the progressive reduction of protective tariffs.

IDP's initial focus is the generation of production sharing agreements between foreign companies and local industry. Because past experience has demonstrated that simple marketing is not an adequate response to this challenge, IDP is deploying an integrated package of technical and marketing assistance aimed at the revamping of selected local companies in order to face the exigencies of the international export market.

IDP's goals for the thirty-month experiment include the promotion of twelve to fifteen successful export projects by local companies. This will require development of comprehensive analysis and technical skills within the local firms in a long list of disciplines, from management to quality control, enhancing their ability to survive on their own in competitive global market conditions.

IDP analyses have identified four priority sectors: metalworking, electronics, textiles, and plastics. Local sector data bases have been developed to help in identifying Costa Rica's potential to attract specific opportunities.

After the initial months of operation, production programs have been established in metalworking and textiles. In collaboration with major U.S. and European corporations, IDP technical staff have provided crucial liaison with local industries, as well as communications and logistics support, and project management and quality control services. IDP's efforts have already resulted in several agreements, ranging from basic production agreements to full-fledged joint ventures.

Decisions about continuation after the thirty-month pilot period will depend on results achieved. Indications thus far are promising.

The Center for the Promotion of Exports and Investments (CENPRO)

CENPRO is the GOCCR agency for non-traditional export promotion and regulation, which would receive minor financial support from the Export Fund. (In 1989, CINDE supported CENPRO with a local currency grant equivalent to about \$375,000; CENPRO's budget from the GOCCR was about \$625,000.)

Because of problems noted in the body of the text, CENPRO's promotional operations during the 1980's yielded minimal results. Most of those promotional operations have now been passed to CINDE.

CENPRO is now concentrating on its regulatory functions, with considerable success. In 1989 it accomplished a difficult consolidation of diverse agencies' bureaucratic requirements into a ventanilla única – a single "one-stop window" for export procedures. Processing which used to require weeks is now a matter of hours. A similar ventanilla única for imported inputs was opened at the end of last year. Likewise, the plethora of exporting forms was consolidated into a formulario único. Streamlined procedures for entry of samples through customs have eliminated a major past bottleneck. CENPRO's negotiation with the Foreign Affairs Ministry resulted in a much-improved visa system for foreign investors.

CENPRO provides the technical administration of Costa Rica's export incentives. It played a major role in the recent substantial reduction of the tax rebate incentive which was negotiated with the private sector. It needs technical assistance and computer hardware to improve its administration of the remaining incentives.

Though most of its trade promotion functions have been passed to CINDE, CENPRO continues to participate in trade fairs and missions. Results have been substantial: these activities have yielded \$4 million in export shipments through September 1989, with an estimated \$11 million in the pipeline for 1990.

(All Amounts Are In C000,000)

ANNEX III, p. 1
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31 Jan. 90

File: FUND3.WK1

* EXPORT FUND: HIGH-FUNDING SCENARIO *

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	====	====	====	====	====	====	====	====	====	====
OPENING FUND BALANCE (Note 2)	3,000	7,993	13,793	15,931	18,426	21,351	24,693	28,512	32,872	37,823
EXPENDITURES										
-- COST OF OPERATIONS (Note 3)	1,150	1,323	1,521	1,749	2,011	2,313	2,660	3,059	3,518	4,046
Less: User Fees & Private Contrib's	(69)	(119)	(183)	(280)	(402)	(463)	(532)	(612)	(704)	(809)
(As % of Cost of Operations)	6%	9%	12%	16%	20%	20%	20%	20%	20%	20%
Subtotal: NET COST TO BE FUNDED	1,081	1,203	1,338	1,469	1,609	1,850	2,128	2,447	2,814	3,236
" " (equiv. in 1989 US\$ 000,000)	9.9	9.6	9.2	8.8	8.3	8.3	8.3	8.2	8.2	8.2
RECEIPTS										
-- USAID (ESF) CONTRIBUTIONS	4,600									
-- OTHER DONOR CONTRIBUTIONS		4,400								
-- CENTRAL BANK CONTRIBUTIONS (Note 4)	298	298	298	298	298	298	298	298	298	298
-- INCOME ON CINDE INVESTMENTS (Note 5)	72	75	79	83	88	94	100	107	93	103
-- INTEREST ON FUND BALANCES (Note 6)	1,104	2,230	3,100	3,583	4,147	4,801	5,548	6,402	7,374	8,475
Subtotal: RECEIPTS	6,074	7,003	7,477	7,964	8,534	9,193	9,947	10,807	11,765	12,800
NET CASH FLOW	4,993	5,799	6,139	6,495	6,925	7,343	7,819	8,360	8,950	9,564
CLOSING FUND BALANCE	7,993	13,793	19,931	26,426	33,351	40,693	48,512	56,872	65,823	75,467
" " " (equiv. in 1989 US\$ 000,000)	73	110	110	110	110	111	111	110	110	110

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ASSUMPTIONS

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-- Colon Inflation Rate	15.0%
-- Real Colon Int. Rate on Balances (Note 1)	6.0%
-- Dollar Inflation Rate	4.0%
-- Effective Exchange Rate Depreciation	11.0%
-- 1/1/90 Exchange rate	₡84/\$1

(See Notes on Page 3)

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(All Amounts Are In C000,000)

ANNEX 111, p. 2

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31 Jan. 90

File: FUNDA.WK1

* EXPORT FUND: LOW-FUNDING SCENARIO *

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
	====	====	====	====	====	====	====	====	====	====
OPENING FUND BALANCE (Note 2)	3,000	7,038	8,128	9,458	11,007	12,819	14,882	17,229	19,897	22,902
EXPENDITURES										
-- COST OF OPERATIONS (Note 3)	900	950	1,000	1,150	1,323	1,521	1,749	2,011	2,313	2,660
Less: User Fees & Private Contrib's	(54)	(86)	(120)	(184)	(265)	(304)	(350)	(402)	(463)	(532)
(As % of Cost of Operations)	6%	9%	12%	16%	20%	20%	20%	20%	20%	20%
Subtotal: NET COST TO BE FUNDED	846	865	880	966	1,058	1,217	1,399	1,609	1,850	2,128
" " (equiv. in 1989 US\$ 000,000)	7.8	6.9	6.1	5.8	5.5	5.4	5.4	5.4	5.4	5.4
RECEIPTS										
-- USAID (ESF) CONTRIBUTIONS	3,500									
-- OTHER DONOR CONTRIBUTIONS										
-- CENTRAL BANK CONTRIBUTIONS (Note 4)	298	298	298	298	298	298	298	298	298	298
-- INCOME ON CINDE INVESTMENTS (Note 5)	72	75	79	83	88	94	100	107	93	103
-- INTEREST ON FUND BALANCES (Note 6)	1,014	1,581	1,833	2,133	2,484	2,888	3,348	3,872	4,464	5,133
Subtotal: RECEIPTS	4,884	1,955	2,210	2,515	2,870	3,280	3,747	4,277	4,855	5,534
NET CASH FLOW	4,038	1,090	1,330	1,549	1,812	2,063	2,347	2,668	3,005	3,406
CLOSING FUND BALANCE	7,038	8,128	9,458	11,007	12,819	14,882	17,229	19,897	22,902	26,308
" " " (equiv. in 1989 US\$ 000,000)	65	65	65	66	66	67	67	67	67	66

=====
ASSUMPTIONS

-- Colon Inflation Rate	15.0%
-- Real Colon Int. Rate on Balances (Note 1)	6.0%
-- Dollar Inflation Rate	4.0%
-- Effective Exchange Rate Depreciation	11.0%
-- 1/1/90 Exchange rate	₡84/\$1

(See Notes on Page 3)

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NOTES TO FINANCIAL PROJECTIONS

- (1) In recent years, real (i.e. net of inflation) colon interest rates in Costa Rica have averaged around 8%; however, real rates this high must be regarded as abnormal. For purposes of these projections, it was not considered prudent to assume real colon rates any higher than 6%. Obviously, Fund income will be highly sensitive to actual real interest rates prevailing from time to time.
- (2) The opening fund balance shown for 1991 reflects the following factors:
 - The 1990 contribution of host-country-owned local currency which is proposed in this paper,
 - 1990 contributions already committed by the BCCR,
 - Modest CINDE fund balances which will be available to defray the costs of programs, and
 - Interest earned on the above items during 1990.
- (3) Under the high-funding scenario, operating costs would tentatively be allocated as follows, assuming the Impulso Industrial program is continued:

PIE	37%
Impulso	13%
CAAP	27%
PROCAP	10%
CENPRO	3%
G & A	10% (Central CINDE and Export Fund)
	<hr/>
	100%

This allocation is fairly close to that of the current (1990) operating budget.

Under the low-funding scenario, G & A would probably have to rise to about 12-13%, with corresponding reductions in the operating programs.

- (4) The Central Bank has agreed to donate to these programs about 298 million colones per year for twenty years, drawn from its interest spread on an export-oriented credit line.
- (5) The CINDE investment revenues projected here stem from (1) US\$5 million worth of shares in the Private Investment Corporation, and (2) principal and interest proceeds from a 1983 Trust Agreement. While they will not accrue directly to the Export Fund, they will be used to defray costs of CINDE's programs, thus reducing the burden on the Fund.
- (6) Interest is calculated on average fund balances, using the sum of the assumed inflation and real interest rates.

ACTION AID-2 INFO AMB DOM ECON/5

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DE RUFHC #4820/01 1952001
ZNR UUUUU ZZK
O 131956Z JUL 88 ZFX
FM SECSTATE WASHDC
TO USAID MISSIONS IN LATIN AMERICA IMMEDIATE
BT
UNCLAS STATE 224820

13-JUL-88 TOR: 20:21
CN: 37287
CHRG: AID
DIST: AID
ADD:

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: HOST COUNTRY-OWNED LOCAL CURRENCY GUIDANCE

REFERENCES: (A) 87 STATE 327494; (B) 87 STATE 286499;
(C) STATE 400469; (1) STATE 802677

SUMMARY: THE FOLLOWING PROVIDES THE LAC SUPPLEMENT TO THE REVISED AGENCY HOST COUNTRY-OWNED LOCAL CURRENCY (HCOLC) GUIDANCE. THE BUREAU'S GUIDANCE IS INTENDED TO ASSIST MISSIONS IN THEIR APPLICATION OF AGENCY GUIDANCE; IN LIGHT OF AREA COUNTRY THAT GUIDANCE. MISSION COMMENTS TO REF 2 HAVE BEEN CONSIDERED, AND SOME CHANGES HAVE BEEN MADE, PARTICULARLY IN SECTIONS REGARDING MISSION INVOLVEMENT AT THE PROJECT LEVEL OF JOINT PROGRAMMING. COMMENTS ON THE CONTINUING AID/W DIALOGUE REGARDING THE HCOLC GUIDELINES ARE PROVIDED BEGINNING WITH PARAGRAPH 6.

1. THE PURPOSE OF THE LAC SUPPLEMENT TO HCOLC AGENCY GUIDANCE IS TO PROVIDE IN ONE DOCUMENT, A SUMMARY OF MISSION RESPONSIBILITIES WITH RESPECT TO THE SEVERAL ALTERNATIVES FOR PROGRAMMING HOST COUNTRY-OWNED LOCAL CURRENCY (INCLUDING PL 480 AND EST COUNTERPART), AND TO DEFINE CLEARLY A TRANSITION PERIOD LEADING TO FULL

COMPLIANCE BY MISSIONS WITH THE REVISED AGENCY GUIDELINES. THESE ALTERNATIVES ARE: (1) GENERAL BUDGETARY SUPPORT; (2) SECTORAL OR SUB-SECTORAL SUPPORT; (3) PROJECTS OR SPECIFIC ACTIVITIES; (4) SPECIAL NON-GOVERNMENTAL DEVELOPMENTAL ACTIVITIES; AND (5) TRUST FUND PROJECTS OR ACTIVITIES. NOTE: FOR WHICHEVER PROGRAMMING ALTERNATIVE IS SELECTED, CERTAIN DESIGN, IMPLEMENTATION, MONITORING, OR EVALUATION FUNCTIONS MUST BE ASSUMED BY HOST COUNTRY GOVERNMENTS OR INSTITUTIONS. WHEREVER SUCH GOVERNMENT OR INSTITUTION REQUIRES ASSISTANCE TO ENABLE IT TO CARRY OUT THESE RESPONSIBILITIES IN AN ADEQUATE FASHION, SUCH ASSISTANCE MAY BE FUNDED WITH HCOLC. (SEPTELS WILL ADVISE MISSIONS CONCERNING FUTURE TREATMENT OF HCOLC PROGRAMS AND ACTIVITIES, PARTICULARLY THOSE DISCUSSED IN SECTION V, BELOW, IN ACTION PLANS, PAADS, AND SEMI-ANNUAL REPORTS.)

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Ref: 7/14

USAID - State Dept

	Act.	Info
MDIR		✓
DDIR		✓
EXO		
DA		
DP	X	
DF		✓
DR		✓
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DU		
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DW		
DX		
DY		
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Due Date:

2. THE OBJECTIVES OF LOCAL CURRENCY PROGRAMMING POLICY ARE AS FOLLOWS:

- TO ENHANCE THE RECIPIENT GOVERNMENT'S CAPACITY TO DESIGN AND MANAGE DEVELOPMENT PROGRAMS
- TO FURTHER OVERALL USAID DEVELOPMENT AND USG POLICY OBJECTIVES IN THE RECIPIENT GOVERNMENT
- TO ENSURE THAT GENERATED FUNDS ARE USED IN ACCORDANCE WITH THE PROVISIONS OF THE PERTINENT AGREEMENTS OR UNDERSTANDINGS
- TO MAINTAIN FLEXIBILITY IN THE APPLICATION OF LOCAL CURRENCY RESOURCES WITHIN THE CONSTRAINTS OF EXISTING REGULATIONS SO AS TO MAXIMIZE THEIR UTILIZATION AS A DEVELOPMENT RESOURCE

3. WHATEVER THE MISSION'S APPROACH TO HCOLC PROGRAMMING, IT IS IMPORTANT THAT THERE BE CLEAR SYSTEMS IN PLACE. THUS EACH MISSION MUST ISSUE A MISSION ORDER (M.O.) WHICH SPECIFIES THE RESPONSIBILITIES OF EACH OFFICE INVOLVED IN THE HCOLC PROCESS, AND WHICH DELEGATES AUTHORITY APPROPRIATE TO THE RESPONSIBILITIES. WHERE SUCH M.O. DOES NOT NOW EXIST, EACH MISSION DIRECTOR IS RESPONSIBLE FOR HAVING ONE ISSUED WITHIN FORTY-FIVE DAYS OF RECEIPT OF THIS CABLE. A COPY OF THE M.O. SHOULD BE POUCHED TO LAC/DR, ATTENTION TERRENCE BROWN, IMMEDIATELY UPON ITS ISSUANCE.

4. MISSION RESPONSIBILITIES FOR EACH PROGRAMMING

ALTERNATIVE ARE AS FOLLOWS:

1. GENERAL BUDGETARY SUPPORT

HCOLC MAY BE PROGRAMMED IN GENERAL SUPPORT OF A HOST GOVERNMENT'S BUDGET WHICH THE MISSION DETERMINES TO BE IN SUPPORT OF A.I.D.'S DEVELOPMENT STRATEGY IN THE COUNTRY. IN THESE CIRCUMSTANCES CARE MUST BE TAKEN TO ASSURE THAT NO HCOLC IS ATTRIBUTED TO SPECIFIED ACTIONS WHICH ARE PROHIBITED BY LEGISLATION GOVERNING APPROPRIATE U.S. FUNDS.

AS STATED IN PARAGRAPH A. 3 BELOW, PROGRAMMING MUST BE CONSISTENT WITH THE INTENT AND PURPOSE OF THE FAA OR PL 482. IT IS DIFFICULT TO ESTABLISH A CREDIBLE LINKAGE WITH THE FAA AT THE GENERAL BUDGETARY SUPPORT LEVEL OF PROGRAMMING WITH RESPECT TO MOST LAC ACTIVITIES. FOR THAT REASON, WE ANTICIPATE THAT SECTOR OR SUB-SECTOR PROGRAMMING OF LOCAL CURRENCY WILL BE THE MORE FREQUENT

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APPROACH TO JOINT PROGRAMMING FOR THE PUBLIC SECTOR BUDGET. (NOTE: EXISTENCE OF A SOUND FISCAL PROGRAM ENCODIFIED IN AN IMF OR IBRD AGREEMENT COULD BE A POSSIBLE MEANS OF LINKING GENERAL BUDGET SUPPORT TO ACHIEVE DEVELOPMENT OBJECTIVES.)

--A.) PROGRAMMING AND DESIGN REQUIREMENTS
WHEN HCOLC IS TO BE UTILIZED FOR GENERAL BUDGETARY SUPPORT:

-- (1.) IT MUST BE PROGRAMMED PURSUANT TO JOINT AGREEMENT IN WRITING BETWEEN AID AND THE HOST GOVERNMENT.

-- (2.) AID MUST BE SATISFIED THAT THE HOST GOVERNMENT PROGRAMMING AND BUDGETING SYSTEMS GIVE REASONABLE ASSURANCE THAT THE OBJECTIVES FOR WHICH A.I.D. AND THE HOST GOVERNMENT HAVE PROGRAMMED THE FUNDS WILL BE ACHIEVED, I.E., THAT THE FUNDS WILL BE USED TO SUPPORT BUDGET CATEGORIES IDENTIFIED.

-- (3.) PROGRAMMING MUST BE CONSISTENT WITH THE INTENT AND PURPOSES OF THE FAA OR PL 482; IT MAY NOT BE FOR SPECIFIED ACTIONS PROHIBITED BY LEGISLATION GOVERNING APPROPRIATE U.S. FUNDS (THE APPROPRIATE AGREEMENT SHOULD PROHIBIT THE USE OF HCOLC FOR POLICE TRAINING AND FOR MILITARY OR PARAMILITARY PURPOSES).

-- (4.) EXISTING GUIDANCE STATES THAT AID MUST QUOTE PAY PARTICULAR ATTENTION TO HOST COUNTRY ENVIRONMENTAL PROTECTION AND MITIGATION PROCEDURES UNQUOTE. DETAILED GUIDANCE WAS SENT TO MISSIONS IN DRAFT FOR COMMENT PER STATE 366242.

--B.) IMPLEMENTATION
ENTIRELY A HOST-GOVERNMENT RESPONSIBILITY.

--C.) MONITORING

--(1.) AID SHOULD REVIEW MONITORING PROCEDURES WITH THE HOST GOVERNMENT, ASSURING THAT THESE PROCEDURES ARE ADEQUATE.

-- (2.) IF THE HOST GOVERNMENT PROCEDURES FOR FINANCIAL OVERSIGHT NEED IMPROVEMENT, SOME OF THE HCOLC SHOULD BE USED TO HELP DEVELOP NECESSARY SYSTEMS AND PROCEDURES.

-- (3.) AID SHOULD RETAIN RIGHTS ADEQUATE TO ENSURE THAT, WITH TIMELY ACCESS, AID CAN EXAMINE SUPPORTING DOCUMENTATION TO VERIFY THAT THE AGREEMENT RE LOCAL CURRENCY USE HAS NOT BEEN VIOLATED.

-- (4.) AID SHOULD ENSURE THAT DOCUMENTATION EXISTS DEMONSTRATING THAT LOCAL CURRENCY WAS TRANSFERRED (OR DISBURSED) TO APPROPRIATE BUDGET ACCOUNT. (NEED NOT TRACE FUNDS TO SPECIFIC BUDGETARY OR END-USE ITEMS).

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-- (5.) AID SHOULD REQUIRE PERIODIC REPORTS FROM THE HOST GOVERNMENT ON BUDGETARY ALLOCATIONS OVER THE LIFE OF THE HCCLC AGREEMENT.

-- (6.) HOST GOVERNMENT COMPLIANCE WITH THE TERMS OF THE JOINT PROGRAMMING AGREEMENT SHOULD BE USED AS ONE BASIC FOR JUDGMENT RE FUTURE LOCAL CURRENCY ALLOCATION DECISIONS.

-- (7.) ACCOUNTING/REPORTING

--(A) MISSION MUST REVIEW THE AMOUNTS DEPOSITED INTO THE SPECIAL ACCOUNT TO ENSURE THAT THEY ARE IN COMPLIANCE WITH AID/HOST GOVERNMENT AGREEMENTS.

--(B) MISSION MUST REVIEW RELEASES/WITHDRAWALS FROM THE SPECIAL ACCOUNT TO ENSURE COMPLIANCE WITH AID-HOST GOVERNMENT AGREEMENTS.

--(C) FOR PL 482 AND CIP-GENERATED LOCAL CURRENCY, MISSION MUST INCLUDE (A) AND (B) IN U-205 REPORT TO AID/W, WHICH WILL BE REFLECTED IN W-213 REPORT.

--D.) EVALUATION

CONDUCT OF EVALUATIONS IS A HOST-GOVERNMENT RESPONSIBILITY. AID SHOULD REVIEW WITH THE HOST GOVERNMENT THE LATTER'S PROCEDURES FOR EVALUATING THE IMPLEMENTATION OF HCCLC ACTIVITIES.

--E.) REMEDIES

IN THE EVENT THAT EX-POST REVIEW SHOWS THAT HOST GOVERNMENT HAS NOT ACCORDED APPROPRIATE EMPHASIS TO PRIORITY PROGRAMS, AID SHOULD TAKE THIS FACT INTO ACCOUNT WHEN MAKING JUDGMENTS RE FUTURE LOCAL CURRENCY

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ALLOCATION DECISIONS.

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II. SECTOR OR SUB-SECTORAL SUPPORT

HCOLC MAY BE PROGRAMMED ON A SECTORAL (E.G. FOR ACTIVITIES IN THE AGRICULTURAL SECTOR) OR SUB-SECTORAL (E.G. FOR THE HOST GOVERNMENT'S AGRICULTURAL EXTENSION ACTIVITIES) BASIS. THIS CAN BE AN EFFECTIVE APPROACH TO JOINT PROGRAMMING WITH THE HOST GOVERNMENT TO FOCUS PUBLIC SECTOR EXPENDITURE ON PRIORITY CATEGORIES OF USES TO FURTHER DEVELOPMENT OBJECTIVES. AT TIMES, A MISSION WISHING TO PROGRAM ON A SECTORAL BASIS HAS BEEN INFORMED BY THE HOST GOVERNMENT OF LINE-ITEM ACTIVITIES IN THAT SECTOR. THE MISSION, IN TURN, HAS RESERVED THE RIGHT TO DETERMINE, AFTER REVIEWING THIS INFORMATION, WHETHER THE SECTOR IS ONE WHICH THE MISSION WISHES TO SUPPORT, AND TO REFUSE TO ASSOCIATE HCOLC WITH TYPES OF ACTIVITIES WHICH ARE NOT CONSISTENT WITH A.I.D.'S COUNTRY DEVELOPMENT STRATEGY. SUCH MISSION ACTION IS NOT INCONSISTENT WITH SECTORAL PROGRAMMING. (IT IS IMPORTANT, HOWEVER, THAT ANY MISSION FOLLOWING THIS PRACTICE CLEARLY SET FORTH IN ITS AGREEMENT WITH THE HOST COUNTRY THAT IT IS CONCURRING IN AN OVERALL SECTOR PROGRAM, AND NOT APPROVING INDIVIDUAL ACTIVITIES BASED ON A TECHNICAL OR QUALITATIVE ASSESSMENT OF THOSE ACTIVITIES. THE LEVEL OF INFORMATION WHICH THE HOST GOVERNMENT SUBMITS TO THE MISSION SHOULD BE CONSISTENT WITH A SECTOR, RATHER THAN A PROJECT REVIEW.) THIS IS CONTRASTED WITH CASES IN WHICH MISSIONS PROGRAM ON A PROJECT OR ACTIVITY BASIS, WHICH REQUIRES MISSION ASSURANCE CONCERNING THE ADEQUACY OF TECHNICAL, FINANCIAL, AND ADMINISTRATIVE ANALYSES OF THE INDIVIDUAL ACTIVITIES BEING FORWARDED.

IT IS ESSENTIAL TO DISTINGUISH THE PROCESS TO BE FOLLOWED TO REACH A CONCLUSION ON THE OVERALL QUALITY OF A SECTOR PROGRAM FROM THE SIGNIFICANTLY MORE INTENSIVE, PROJECT-SPECIFIC JUDGEMENTS REQUIRED FOR JOINT PROGRAMMING AT THE PROJECT LEVEL. AT THE SECTOR LEVEL, REVIEW OF THE SECTOR PROGRAM CONTENT AND A JUDGEMENT THAT ANY OF THE TYPES OF ACTIVITIES WHICH MAY BENEFIT FROM HCOLC IS CONSISTENT WITH A.I.D.'S DEVELOPMENT STRATEGY IS SUFFICIENT TO CONCLUDE THAT THE SECTOR PROGRAM IS OF APPROPRIATE QUALITY.

--A.) PROGRAMMING AND DESIGN REQUIREMENTS

(1 THRU 4); SAME AS FOR GENERAL BUDGETARY SUPPORT -- SEE PARAGRAPH I. & ABOVE

-- (5.) AID MUST BE SATISFIED THAT THE HOST GOVERNMENT HAS GOOD QUALITY SECTORAL ACTIVITIES, AND TECHNICAL AND ADMINISTRATIVE CAPABILITIES TO CARRY OUT THE PROGRAM.

--E.) IMPLEMENTATION

ENTIRELY A HOST GOVERNMENT RESPONSIBILITY (I.E., SAME AS

ABOVE).

--C.) MONITORING

-- (1 THRU 4 AND 7). SAME AS FOR GENERAL BUDGETARY SUPPORT, - SEE PARAGRAPH I ABOVE.

-- (5) AID SHOULD REQUIRE PERIODIC REPORTS FROM THE HOST GOVERNMENT ON THE OVERALL PROGRESS OF THE SECTOR PROGRAM OVER THE LIFE OF THE HCOLC AGREEMENT

--D.) EVALUATION

-- SAME AS FOR GENERAL BUDGETARY SUPPORT - SEE PARAGRAPH I. D ABOVE

--E.) REMEDIES

SAME AS FOR GENERAL BUDGETARY SUPPORT, - SEE PARAGRAPH I. E ABOVE

III. PROJECTS OR SPECIFIC ACTIVITIES

--A.) PROGRAMMING AND DESIGN REQUIREMENTS

-- (1) SAME AS FOR GENERAL BUDGETARY SUPPORT- SEE PARAGRAPH I-A ABOVE.

-- (2) AID MUST ASSURE ITSELF THAT PROJECTS HAVE BEEN DESIGNED IN ACCORDANCE WITH ACCEPTABLE TECHNICAL, FINANCIAL, ACCOUNTING, ADMINISTRATIVE, AND ENVIRONMENTAL STANDARDS. PROGRAMMING HCOLC IN SUPPORT OF ACTIVITIES FOR WHICH FUNDING AND MONITORING IS PROVIDED BY AID, OTHER DONORS OR STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS GENERALLY PROVIDES SUCH ASSURANCE; IN ABSENCE OF THIS, MISSIONS SHOULD REVIEW PROJECT DOCUMENTATION AND HOST GOVERNMENT PROCEDURES PRIOR TO APPROVING FUNDS FOR THE PROJECT. SPECIFIC

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REVIEW OF THE ADEQUACY OF FUNDS CONTROL PROCEDURES OF NEW ORGANIZATIONS IS REQUIRED.

-- (3.) EXISTING GUIDANCE STATES THAT MISSIONS MUST QUOTE PAY PARTICULAR ATTENTION TO HOST COUNTRY ENVIRONMENTAL PROTECTION AND MITIGATION PROCEDURES UNQUOTE. SEE STATE 066242.

--E.) IMPLEMENTATION

THIS IS A HOST COUNTRY RESPONSIBILITY. HOWEVER, AID MUST ASSURE ITSELF THAT HOST COUNTRY IMPLEMENTING ENTITIES HAVE ADEQUATE IMPLEMENTATION CAPABILITIES.

--C.) MONITORING

--(1.) SAME AS FOR GENERAL BUDGETARY SUPPORT, - SEE PARAGRAPH I-C-(1) ABOVE

--(2.) IF HOST INSTITUTION'S FINANCIAL MANAGEMENT REQUIRES ASSISTANCE SOME OF THE LOCAL CURRENCY MAY BE USED TO FUND SUCH ASSISTANCE,

--(3.) SAME AS FOR GENERAL BUDGETARY SUPPORT, - SEE PARAGRAPH I-C-(3) ABOVE

--(4.) AID SHOULD REQUIRE THAT HOST GOVERNMENT AND/OR INDEPENDENT AUDITORS PERFORM PERIODIC AUDITS, COPIES OF WHICH ARE FURNISHED TO AID

--(5.) AID SHOULD REQUIRE PERIODIC PROGRESS REPORTS FROM HOST COUNTRY INSTITUTIONS. MISSIONS SHOULD UNDERTAKE FIELD VISITS ON A RANDOM BASIS.

--(6.) IF PROJECTS ARE NOT BEING UNDERTAKEN BY DONORS OR STRONG, HIGHLY RESPECTED HOST GOVERNMENT OR PRIVATE SECTOR INSTITUTIONS, MISSIONS SHOULD TAKE A MORE ACTIVE ROLE IN MONITORING.

--(7.) SAME AS FOR GENERAL BUDGETARY SUPPORT, - SEE PARAGRAPH I-C-(7), ABOVE.

--(8.) PROGRESS TOWARD PROJECT COMPLETION SHOULD BE REVIEWED WITH HOST GOVERNMENT IF AND WHEN AID IS CONSIDERING SUBSEQUENT ALLOCATIONS OF LOCAL CURRENCY FOR PROJECTS.

--D) EVALUATION

THIS IS THE RESPONSIBILITY OF THE HOST COUNTRY INSTITUTIONS AT THE LEVEL OF THE INDIVIDUAL ACTIVITIES. AID SHOULD REVIEW WITH THE HOST INSTITUTION ITS PROCEDURES FOR EVALUATING PROJECTS, AND ITS EVALUATION PLAN FOR EACH PROJECT, AND SHOULD BE SATISFIED AS TO ITS ADEQUACY. COPIES OF ANY EVALUATION SHOULD BE KEPT ON FILE BY THE IMPLEMENTING ENTITY AND SHOULD BE AVAILABLE TO THE MISSION UPON REQUEST.

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--B.) REMEDIES

(1) IN AGREEMENT WITH HOST COUNTRY INSTITUTION, MISSION SHOULD RESERVE THE RIGHT TO HALT DISBURSEMENTS IF IT LEARNS THAT FUNDS ARE NOT BEING UTILIZED IN ACCORDANCE WITH AGREEMENT.

(2) MISSION SHOULD REVIEW PROGRESS TOWARD PROJECT COMPLETION WITH HOST GOVERNMENT IF AND WHEN MISSION IS CONSIDERING SUBSEQUENT ALLOCATIONS OF LOCAL CURRENCY FOR PROJECTS.

--F.)

PROGRAMMING AT THE PROJECT LEVEL MAY OFFER AN EXCELLENT OPPORTUNITY TO ASSIST HOST COUNTRIES ENHANCE THEIR INSTITUTIONAL CAPACITY TO PLAN AND MONITOR ACTIVITIES, INCLUDING IMPROVING BUDGET SYSTEMS, FINANCIAL MANAGEMENT OVERSIGHT AND AUDIT CAPACITY. IN THAT LIGHT, MISSIONS MAY CHOOSE TO RELY UPON CENTRAL GOVERNMENT COORDINATING ENTITIES TO OVERSEE HCOLC ACTIVITIES WHICH ARE UNDERTAKEN BY A BROAD ARRAY OF IMPLEMENTING INSTITUTIONS. IF THESE COORDINATING ENTITIES HAVE ADEQUATE INSTITUTIONAL CAPACITY FROM THE MISSION'S

VIEWPOINT, THEY MAY PROVIDE ASSURANCES OF ADEQUATE TECHNICAL, ADMINISTRATIVE AND PROGRAM MANAGEMENT TO MISSIONS AND AVOID THE REQUIREMENT THAT MISSIONS ENGAGE IN DETAILED REVIEWS WITH EACH IMPLEMENTING INSTITUTION. CARE SHOULD BE TAKEN TO PROVIDE ADEQUATE HCOLC RESOURCES TO THESE COORDINATING UNITS TO ASSURE THEY CAN CARRY OUT ALL NECESSARY OVERSIGHT FUNCTIONS.

IV. SPECIAL NON-GOVERNMENTAL DEVELOPMENT ACTIVITIES

ALTERNATIVE III, ABOVE, MAY NOT PROVE FEASIBLE IN ALL CASES. FOR EXAMPLE, OFTEN THERE ARE OCCASIONS WHEN A

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MISSION WISHES TO HAVE FUNDS PROGRAMMED FOR ACTIVITIES OF NON-GOVERNMENTAL ORGANIZATIONS. (THESE HAVE, IN THE PAST, INCLUDED ACTIVITIES SUCH AS PVO PROGRAMS IN HEALTH OR NON-FORMAL EDUCATION; SCHOLARSHIPS FOR TRAINING AT PRIVATE LOCAL EDUCATION INSTITUTIONS; SUPPORT THROUGH COMMERCIAL BANKS FOR FIRMS WITH EXCELLENT EXPORT POTENTIAL, BUT EXPERIENCING FINANCIAL PROBLEMS). AT TIMES, HOWEVER, IT HAS NOT BEEN POSSIBLE FOR THE HOST GOVERNMENT TO ENTER AGREEMENTS WITH SUCH ORGANIZATIONS. WHEN THIS OCCURS MISSIONS SHOULD EXPLORE THE POSSIBILITY OF HAVING THE PROGRAMMING, DESIGN, AND IMPLEMENTATION OF THESE ACTIVITIES CARRIED OUT BY A NON-GOVERNMENTAL OR QUASI-GOVERNMENTAL ENTITY (IN EXISTENCE OR TO BE CREATED) WHICH IS RESPECTED, DEVELOPMENT-RELATED, NON-PARTISAN, AND NON-PROFIT. THE HOST GOVERNMENT WOULD EXECUTE AN AGREEMENT WITH THIS ENTITY, SETTING FORTH THE GENERAL PARAMETERS OF THE ACTIVITIES TO BE FUNDED, AND THE ENTITY WOULD HAVE RESPONSIBILITIES SIMILAR TO THOSE NOW EXERCISED BY MISSIONS UNDER THE TRUST FUND ARRANGEMENT (SEE SECTION V BELOW), AND WOULD BE FULLY ACCOUNTABLE TO THE HOST GOVERNMENT. CERTAIN OF THE MISSION'S RESPONSIBILITIES WITH RESPECT TO THIS PROGRAM WITH A NON-GOVERNMENTAL OR QUASI-GOVERNMENTAL ENTITY WOULD BE DEFINED IN THE PERTINENT AGREEMENT, BUT COULD TYPICALLY BE THE SAME AS THOSE SET FORTH IN PARAGRAPH III ABOVE (E.G. AS FOR A PROJECT WITH AN UMBRELLA PVO OR AN INTERMEDIATE CREDIT INSTITUTION). MORE GUIDANCE WILL BE FORTHCOMING WITH RESPECT TO THIS ALTERNATIVE FOR PROGRAMMING HCOLC WITH A NON-GOVERNMENTAL OR QUASI-GOVERNMENTAL ENTITY.

4. TRUST FUND PROJECTS OR ACTIVITIES

WHILE ALTERNATIVE IV IS ATTRACTIVE FOR PROVIDING ASSISTANCE TO NGO/PRIVATE SECTOR ENTITIES, IT MAY NOT BE A VIABLE OPTION IN ALL COUNTRIES. UNDER THESE

CIRCUMSTANCES, IF OTHER ALTERNATIVES ARE LACKING, THE MISSION, WITH PRIOR AA/LAC APPROVAL, MAY UNDERTAKE THE MANAGEMENT OF THESE FUNDS. IN THIS EVENT, ANY PROJECT SHOULD BE FUNDED PURSUANT TO A TRUST FUND AGREEMENT SIGNED BY THE MISSION AND THE HOST GOVERNMENT. UNDER THIS ARRANGEMENT, AID ASSUMES CERTAIN FIDUCIARY RESPONSIBILITIES. CURRENT AGENCY GUIDELINES STATE THAT THE USE OF PROGRAM TRUST FUNDS IS QUOTE NOT GENERALLY FAVORED UNQUOTE, IN PART BECAUSE OF THESE RESPONSIBILITIES AND THE MORE LABOR INTENSIVE INVOLVEMENT OF MISSION STAFF IN PROGRAM MANAGEMENT. FURTHER, FREQUENT USE OF TRUST FUNDS FOR PROGRAM PURPOSES WEAKENS OUR OBJECTIVE OF USING HCOLC FUNDS TO HELP STRENGTHEN THE CAPACITY OF HOST COUNTRY INSTITUTIONS.

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ACCOUNT IN IMPLEMENTATION (STATE 066242 DOES NOT DEAL WITH THIS SITUATION. GUIDANCE WILL BE FORTHCOMING).

--C.) MONITORING

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- (1.) THIS IS AID'S RESPONSIBILITY AND MISSION SHOULD EXERCISE THIS RESPONSIBILITY AS IT WOULD FOR A TYPICAL AID PROJECT.
- (2.) ALL MUST ACCOUNT FOR AND REPORT PERIODICALLY TO HOST GOVERNMENT ON USES OF FUNDS IN ACCOUNT AS PRESCRIBED IN TRUST FUND AGREEMENT.
- (3.) MISSION MUST INCLUDE REPORT ON PROJECT STATUS IN SEMI-ANNUAL PROJECT REPORT NOW FURNISHED AID/W.
- (4.) ACCOUNTING/REPORTING
 - (A) MISSION MUST HANDLE FUNDS (E.G., EARMARK, OBLIGATIONS, DISBURSEMENT) AS IF THEY WERE APPROPRIATED FUNDS.
 - (B) FUNDS MUST BE DEPOSITED INTO BANK ACCOUNT MAINTAINED BY U.S. DISPENSING OFFICER.
 - (E) FINANCIAL MANAGEMENT IS THE SAME AS FOR APPROPRIATED FUNDS.
- L.) EVALUATION
 - (1.) PP-LIKE LOGS SHOULD REFLECT EVALUATION CONSIDERATIONS AND MISSION SHOULD CONSIDER THESE PROJECTS WHEN DEVELOPING ANNUAL EVALUATION PLAN.
- F.) REMEDIES
 - (1.) MISSION SHOULD INCORPORATE INTO AGREEMENTS WITH CONTRACTORS AND GRANTEE APPROPRIATE REMEDIES FOR BREACH OF AGREEMENT. IN THE EVENT OF SUCH BREACH, MISSION SHOULD PURSUE SUCH REMEDIES.
 - (2) IN THE TRUST FUND AGREEMENT, THE HOST

GOVERNMENT SHOULD AGREE THAT IT WILL HOLD AID HARMLESS WITH RESPECT TO ALL CLAIMS ARISING FROM THE ASSISTANCE ACTIVITIES CARRIED OUT UNDER THE TRUST.

5. TRANSITION PERIOD FOR FULL COMPLIANCE: LAC/W RECOGNIZES THAT LAC MISSIONS CANNOT BRING EXISTING SYSTEMS FOR PROGRAMMING AND MANAGING HOST COUNTRY-OWNED LOCAL CURRENCY (HCOLC) INTO COMPLIANCE FROM THE DATE OF ISSUANCE OF THE GUIDANCE WITHOUT A REASONABLE TRANSITION PERIOD. MISSIONS ARE EXPECTED TO MOVE AS EXPEDITIOUSLY AS POSSIBLE TO CONFORM THEIR LOCAL CURRENCY MANAGEMENT SYSTEMS TO THE REVISED GUIDANCE. FULL COMPLIANCE IS EXPECTED IN THE PROGRAMMING AND USE OF ALL HCOLC MADE AVAILABLE UNDER PL 483 AND AGREEMENTS UNDER THE FAA SIGNED AFTER SEPTEMBER 30, 1989 OR FOR LOCAL CURRENCY IMPLEMENTING AGREEMENTS USING ANY HCOLC AFTER DECEMBER 31, 1989. FOR HCOLC MADE AVAILABLE UNDER EARLIER AGREEMENTS, MISSIONS SHOULD DOCUMENT ANY DEVIATIONS FROM THE EXISTING GUIDANCE FOR THE PROGRAMMING AND USE OF THOSE FUNDS. DOCUMENTATION SHOULD DETAIL THE BASIS FOR CONCLUDING THAT COMPLIANCE IS NOT POSSIBLE WITHOUT SIGNIFICANT DISRUPTION OF ITS PROGRAM. MISSIONS SHOULD INFORM LAC/W OF AREAS IN WHICH FULL COMPLIANCE WILL NOT BE REALIZED DURING THE TRANSITION PERIOD.

6. LAC IS CONTINUING TO REVIEW WITH FPC AND THE ADMINISTRATOR POSSIBLE CHANGES IN AGENCY GUIDELINES IN THE FOLLOWING AREAS:

A. PROGRAM TRUST FUNDS: CURRENT GUIDANCE DISCOURAGES ALL USES OF PROGRAM TRUST FUNDS. BASED ON MISSION COMMENTS, IT IS CLEAR THAT THIS IS HAVING A STRONG NEGATIVE IMPACT ON OUR PRIVATE SECTOR PORTFOLIO. ALTHOUGH WE AGREE THAT TRUST FUNDS SHOULD NOT BE FREQUENTLY USED, WE THINK THERE ARE SOME INSTANCES IN WHICH IT SHOULD BE USED AND THERE SHOULD NOT BE A QUESTION CONCERNING THE PROPRIETY OF SUCH USE IN THESE CASES. THEREFORE, WE HAVE REQUESTED MODIFICATION OF THE GUIDELINES TO PERMIT MISSIONS TO USE PROGRAM TRUST FUNDS FOR DIRECT ASSISTANCE TO THE PRIVATE SECTOR, AND DELETE REFERENCE TO SUCH USES AS GENERALLY NOT FAVORED.

B. ENVIRONMENTAL PROCEDURES: THE DRAFT ENVIRONMENTAL GUIDELINES STATE 066242 DOES NOT TRACK WELL WITH THE DEFINED CATEGORIES OF LOCAL CURRENCY PROGRAMMING (GENERAL BUDGET SUPPORT, SECTOR PROGRAMMING, PROJECT PROGRAMMING AND PROGRAM TRUST FUNDS). WE WILL REQUEST

RESTRUCTURING OF THE ENVIRONMENTAL GUIDELINES TO ADDRESS MORE SPECIFICALLY LOCAL CURRENCY PROGRAMMING CATEGORIES.

7. SEPTEL WILL FOLLOW IN A QUESTION AND ANSWER FORMAT RESPONDING TO THE COMMENTS RECEIVED BY MISSIONS ON THE DRAFT LAC SUPPLEMENTAL LOCAL CURRENCY GUIDELINES. WE CONTINUE TO ENCOURAGE MISSION COMMENTS ON LOCAL CURRENCY GUIDELINES AND EXPERIENCE WITH IMPLEMENTATION. WHITEHEAD
B1

BEST AVAILABLE DOCUMENT

Acuerdo celebrado el día _____ de _____ de 1990, en San José, Costa Rica, entre:

El GOBIERNO DE LA REPUBLICA DE COSTA RICA, representado por _____, que en adelante se denominará el "GOCR";

El BANCO CENTRAL DE COSTA RICA, representado por _____, que en adelante se denominará el "BCCR";

El GOBIERNO DE LOS ESTADOS UNIDOS DE AMERICA, actuando a través de la AGENCIA PARA EL DESARROLLO INTERNACIONAL, que en adelante se denominará la "AID"; y

La COALICION COSTARRICENSE DE INICIATIVAS DE DESARROLLO, representada por _____, que en adelante se denominará "CINDE".

POR CUANTO...

HEMOS CONVENIDO EN EL SIGUIENTE ACUERDO DE PROGRAMACION:

ARTICULO I

TERMINOLOGIA

CLAUSULA 1.1 Definiciones.

En este acuerdo, los siguientes términos tendrán el significado que a continuación se indica:

- (a) "Cuenta Especial", la cuenta número 215-03-033/4 en el BCCR;
- (b) "Cuenta Separada de Inversiones", la cuenta número _____

de CINDE en el BCCR, establecida de acuerdo con el Memorándum de Entendimiento celebrado el 23 de diciembre de 1988 entre el BCCR, CINDE y AID;

(c) "Contrato de Transferencia", el contrato o acuerdo según el cual un Donante hace contribuciones adicionales al Fondo de Exportaciones;

(d) "Director(es)", un miembro o miembros de la Junta Administradora;

(e) "Donante(s)", la AID o cualquier gobierno, institución, entidad o persona o el conjunto de los gobiernos, instituciones, entidades y personas que han participado con el GOCCR en la programación o contribución de recursos al Fondo;

(f) "Exportaciones", la comercialización en el exterior de bienes y servicios, incluyendo turismo, entrada y procesamiento de datos, y otros servicios similares capaces de generar divisas;

(g) "Exportaciones no Tradicionales", las exportaciones de Costa Rica destinadas a mercados fuera del Mercado Común Centroamericano, que no comprendan azúcar, café, bananos o carne, sin procesar;

(h) "Fondo de Exportaciones" o "Fondo", el fondo creado de acuerdo con la Cláusula 2.1 de este acuerdo;

(i) "Junta Administradora" o "Junta", la junta creada de acuerdo con la Cláusula 2.2 de este acuerdo.

ARTICULO II

EL FONDO Y LA JUNTA

CLAUSULA 2.1 El Fondo de Exportaciones.

La AID, con el consentimiento y la aprobación del GOCR, en este acto acuerda traspasar a CINDE, de la Cuenta Especial, la cantidad de _____ colones, y depositarlos en la Cuenta Separada de Inversiones, para crear un fondo para financiar programas de apoyo a las Exportaciones no Tradicionales. Esa cuenta, cualquier otra cuenta o subcuenta de este acuerdo y cualquier activo que se adquiriera con dinero de la Cuenta Separada de Inversiones, de otras cuentas o subcuentas, o con contribuciones adicionales, se denominará e identificará con el nombre de "Fondo de Exportaciones".

Los fondos anteriormente depositados en la Cuenta Separada de Inversiones en cumplimiento del Memorándum de Entendimiento celebrado el 23 de diciembre de 1988 entre el BCCR, CINDE y AID, junto con los intereses devengados o percibidos sobre esos fondos hasta el fin del año 1990, continuarán estando disponibles para financiar las operaciones de CINDE durante 1990, sujetos a los términos y limitaciones presupuestarias de dicho Memorándum de Entendimiento. Con excepción de los fondos mencionados en la oración que antecede, todas las sumas depositadas o que fueren depositadas en la Cuenta Separada de Inversiones de ahora en adelante, estarán sujetas a los términos y condiciones de este acuerdo.

CLAUSULA 2.2 Junta Administradora.

El GOCR y la AID acuerdan crear una junta de cinco miembros, que se denominará "Junta Administradora", para atender la administración, la inversión y la custodia del Fondo de Exportaciones.

CLAUSULA 2.3 Delegación.

CINDE delega total e irrevocablemente en la Junta Administradora, sin ninguna reserva, la administración, la inversión y la custodia del Fondo de Exportaciones, a partir del momento del nombramiento de la Junta y de acuerdo con este acuerdo. En consecuencia, únicamente la Junta Administradora y los apoderados nombrados de acuerdo con la Cláusula 2.4 de este acuerdo, tendrán autoridad, poder o dominio sobre el Fondo de Exportaciones, incluyendo la facultad de resolver acerca de interpretaciones o modificaciones de este acuerdo y de aceptar contribuciones adicionales al Fondo.

CLAUSULA 2.4. Poder.

CINDE conferirá, por aparte, poder generalísimo sin límite de suma al Presidente y al Vicepresidente de la Junta Administradora, para todos los actos o contratos relacionados con la administración, la inversión y la custodia del Fondo de Exportaciones, exclusivamente. Los apoderados deberán actuar siempre en cumplimiento de resoluciones de la Junta. La Junta Administradora fijará las atribuciones discrecionales de los apoderados y determinará los casos en que la actuación de los apoderados deberá ser conjunta. El poder caducará con la disolución y liquidación final del Fondo.

CLAUSULA 2.5 Propiedad de los Activos.

Todos los activos del Fondo de Exportaciones serán propiedad de CINDE. La Junta Administradora hará todas las inversiones a nombre y por cuenta de CINDE y exigirá que todos los títulos nominativos o a la

orden que adquiera con recursos del Fondo, se emitan siempre a nombre o a la orden de CINDE/Fondo de Exportaciones, y que los comprobantes de compra de esos y de cualesquiera otros activos o de títulos al portador se emitan siempre a nombre de CINDE/Fondo de Exportaciones y la Junta Administradora identificará en todo momento esos bienes y todos los demás bienes del Fondo como de propiedad de CINDE/Fondo de Exportaciones.

CLAUSULA 2.6 Aceptación.

El BCCR acepta efectuar, dentro de los próximos tres días hábiles, el traspaso del depósito inicial del Fondo de Exportaciones a la Cuenta Separada de Inversiones, conforme a la Cláusula 2.1 de este acuerdo. CINDE acepta el depósito y que la Junta Administradora disponga del Fondo de acuerdo con este acuerdo.

CLAUSULA 2.7 Contribuciones Adicionales.

La Junta Administradora podrá en cualquier momento aceptar contribuciones adicionales de dinero u otros bienes al Fondo de Exportaciones, del GOCR, la AID o cualquier otro gobierno o contribuyente, cuando, a juicio de la Junta, tales contribuciones se hagan para promover los fines y propósitos del Fondo. Todas las contribuciones adicionales se depositarán en la Cuenta Separada de Inversiones y se agregarán al Fondo, excepto en el tanto que un Contrato de Transferencia disponga otra cosa o que la Junta Administradora estime que determinados bienes deban segregarse debido a condiciones o restricciones especiales aplicables a ellos.

Todas las contribuciones hechas al Fondo de Exportaciones, inicialmente o con posterioridad al establecimiento del Fondo, se tratarán como un solo fondo.

CLAUSULA 2.8 Contratos de Transferencia.

A. Las contribuciones adicionales que acepte y reciba la Junta Administradora, del GOOCR, la AID o cualquier otro gobierno o contribuyente, podrán sujetarse a condiciones o restricciones especiales y estipularse en un Contrato de Transferencia.

B. Cualquier contribuyente puede en un Contrato de Transferencia, conferir atribuciones y poderes adicionales o diferentes a la Junta Administradora, referentes a los bienes traspasados.

C. Salvo lo que en contrario disponga un Contrato de Transferencia, todas las estipulaciones de este acuerdo serán aplicables a los bienes traspasados por un Contrato de Transferencia.

ARTICULO III

FINES Y PROPOSITOS

CLAUSULA 3.1 Fines y Propósitos del Fondo.

Los fines y propósitos del fondo que se crea por este acuerdo son fomentar, promover, mejorar e incrementar las Exportaciones no Tradicionales, principalmente por medio de:

- (a) financiamiento de programas tendientes a facilitar, mejorar e incrementar el comercio internacional de Costa Rica hacia otros países;
- (b) atracción de inversiones extranjeras a Costa Rica;
- (c) impulso del turismo hacia Costa Rica;

- (d) estímulo a cualquier actividad productora de divisas; y
- (e) obtención de recursos humanos y tecnológicos para mejorar e incrementar el comercio internacional de Costa Rica.

ARTICULO IV

ATRIBUCIONES Y DEBERES

CLAUSULA 4.1 Atribuciones del GOCR y los Donantes de Definición Estratégica.

A. El GOCR propone y la AID acepta, una lista de tipos de programas y presupuestos anuales de financiamiento. De esa lista, que se incorpora a este acuerdo como Anexo _____, la Junta Administradora pondrá en ejecución lo que corresponda hacer para cumplir con los fines y propósitos de este acuerdo, por el tiempo que esa lista esté vigente o mientras no sea modificada.

B. Cuando otro u otros Donantes hagan contribuciones al Fondo o en cualquier momento, el GOCR podrá hacer cambios a la lista de tipos de programas y a los presupuestos de financiamiento, sujetos a acuerdo por escrito de los Donantes que no hayan renunciado a este derecho. EL GOCR informará por escrito a la Junta de los cambios hechos y acordados, para su ejecución.

CLAUSULA 4.2 Atribuciones de la Junta Administradora.

La Junta Administradora será el órgano encargado de ejecutar lo que corresponda para cumplir con los tipos de programas acordados por el GOCR y los Donantes. Tendrá plenos poderes, derecho y autoridad para disponer del Fondo de Exportaciones y realizar los fines y propósitos

descritos en la Clausula 3.1, como podría hacerlo su propio dueño, con sujeción a las estipulaciones expresas de este acuerdo. La Junta Administradora estará expresamente facultada para, pero no limitada a:

(a) Seleccionar a las agencias o a los ejecutores de los trabajos, asignarles recursos y supervisarlos, con base en metas que se pueda estimar. Asignará los recursos por un período de tiempo suficiente para hacer un planeamiento prudente y asegurar la continuidad de las actividades. Sin embargo, no comprometerá en ningún momento recursos por períodos de más de tres años, sin la aprobación por escrito del GOCR y el respectivo Donante.

(b) Separarse, con fundamento en razones técnicas, no más del veinte por ciento de las cantidades presupuestadas por el GOCR para cada tipo de programa, debiendo informar antes al GOCR y al respectivo Donante. La separación se llevará a efecto, a menos que en los siguientes quince días hábiles la Junta reciba por escrito objeción del GOCR y del respectivo Donante.

(c) Fijar las condiciones y los plazos de desembolso del financiamiento asignado a cada trabajo o actividad.

(d) Hacer o procurar estudios y conferencias que contribuyan significativamente a promover Exportaciones, por iniciativa propia o a solicitud del GOCR. Sin embargo, no financiará ninguna otra actividad que no haya sido ordenada por el GOCR. Los gastos anuales de estudios y conferencias no podrán ser mayores que el dos por ciento de los ingresos

generados por las inversiones del Fondo en el mismo período de un año, salvo autorización escrita del GOCR y los Donantes.

(e) Consultar al GOCR y a los respectivos Donantes, si la Junta Administradora considera en algún momento que no es técnica o económicamente factible cumplir con la lista vigente entonces de tipos de programas y presupuestos anuales de financiamiento. Si después de hecha la consulta la Junta continúa considerando que el presupuesto de la actividad en cuestión debe ser reducido o suprimido, la Junta podrá proceder de acuerdo, salvo que el GOCR y el respectivo Donante dispongan otra cosa.

(f) Celebrar contratos y contraer obligaciones a nombre de CINDE y por cuenta del Fondo de Exportaciones, relacionados con los asuntos del Fondo.

(g) Conocer y resolver los demás asuntos que la Junta Administradora determine que son de su competencia exclusiva según este acuerdo o que un Contrato de Transferencia u otro acuerdo de las partes encargue a la Junta.

CLAUSULA 4.3 Obligaciones de la Junta Administradora.

(a) Hacer todo lo necesario para la consecución de los fines y propósitos de este acuerdo.

(b) Financiar con recursos del Fondo los tipos de programas que proponga el GOCR de acuerdo con la Cláusula 4.1. Como política general, los pagos para cubrir gastos administrativos y costos de programación se harán contra aumentos del Fondo por intereses devengados, menos el

porcentaje de la inflación. Sin embargo, la Junta Administradora podrá excepcionalmente utilizar el principal del Fondo, especialmente durante los primeros años, para hacer pagos o autorizar gastos superiores a los intereses reales ganados por el Fondo, que considere apropiados para el logro de los fines y propósitos del Fondo de Exportaciones, con autorización por escrito del GOCR y los Donantes.

(c) Invertir y reinvertir continuamente el dinero disponible del Fondo que no esté siendo utilizado en las actividades descritas en la Cláusula 3.1, conforme se indica en la Cláusula 5.1.

(d) Registrar por aparte los activos del Fondo.

(e) Ejercer la custodia de todos los dineros, valores y otros activos del Fondo y practicar todos los actos, diligencias o recursos para que en general los activos del Fondo conserven o aumenten su valor.

(f) Cobrar los intereses, dividendos y dineros del Fondo.

(g) Contabilizar todos los movimientos del Fondo y conservar comprobantes de todas las operaciones.

(h) Establecer sistemas y procedimientos confiables de control y seguimiento de las inversiones y de los activos del Fondo.

(i) Tomar y mantener seguros por clases (incluyendo fidelidad de posiciones y dinero en tránsito) y montos amplios y suficientes para proteger los activos del Fondo, a juicio de la Junta Administradora.

(j) Ejercer todos los derechos y acciones administrativas o judiciales que quepan para exigir el cumplimiento cabal, o en su caso la resolución, de los contratos con las agencias o los ejecutores de los

trabajos o actividades que contrate la Junta Administradora y exigir o demandar su responsabilidad.

(k) Ejercer todos los derechos y acciones administrativas o judiciales que sean necesarias o procedentes para defender el Fondo, preservar y aumentar el Fondo.

(l) Contratar a nombre de CINDE y por cuenta del Fondo, personal para atender los asuntos del Fondo, con la limitación de que el presupuesto administrativo anual, excluyendo las comisiones de inversión y los gastos directamente relacionados con la custodia o la redención de las inversiones, no podrá ser mayor que el uno por ciento de los ingresos generados por las inversiones del Fondo en el mismo período de un año, salvo aprobación por escrito del GOCR y los Donantes.

(m) No delegar sus funciones. Sin embargo, la Junta podrá contratar a nombre de CINDE y por cuenta del Fondo agentes, funcionarios, asesores, profesionales independientes o firmas para administrar o tramitar sus asuntos propios.

(n) Abstenerse de utilizar los bienes del Fondo para fines diferentes o contrarios a este acuerdo.

(o) Elaborar y someter a la aprobación exigida por el Artículo IX de este acuerdo, un presupuesto anual de gastos de administración del Fondo y de los estudios y conferencias que haga la Junta, dentro de las limitaciones impuestas por las Cláusulas 4.2(d) y 4.3(l). Después del 31 de diciembre de 1994, en caso de desacuerdo acerca del presupuesto administrativo entre la Junta Administradora y alguna otra parte, la Junta se regirá por el

presupuesto del año anterior ajustado por la inflación, salvo acuerdo del GOCR y los Donantes que ordene a la Junta hacer otra cosa.

(p) Dar un informe semestral al GOCR y a todos los Donantes, cuarenta y cinco días hábiles después de terminado cada semestre calendario, que contenga por lo menos la siguiente información:

- (i) un resumen de todos los compromisos de financiación de trabajos o actividades, hechos por la Junta Administradora y que estén vigentes a la fecha del informe, incluyendo por lo menos los montos, los plazos y las metas fijadas;
- (ii) una comparación del comportamiento de los trabajos o actividades en relación con las metas impuestas;
- (iii) una descripción de cualquier deficiencia o irregularidad substancial encontrada en las auditorías de las agencias o ejecutores de los trabajos o actividades;
- (iv) un resumen de las actividades emprendidas directamente por la Junta Administradora durante el período del informe, incluyendo los resultados obtenidos; y
- (v) los estados financieros del Fondo, sin auditar, correspondientes al período del informe.

(q) Hacer que una firma de contadores públicos autorizados, escogida de una lista de firmas acordada por el GOCR y los Donantes, haga anualmente, por lo menos, una auditoría de todos los trabajos o actividades financiados con recursos del Fondo. Cada tres años, por lo menos, se contratará una firma diferente. El alcance de las auditorías será definido

conforme se establece en el Artículo IX de este acuerdo; sin embargo, cada auditoría deberá abrazar la exactitud de los estados financieros, la idoneidad de los sistemas financiero, administrativo y de provisión, y el cumplimiento del contrato por parte de la agencia o los ejecutores de los trabajos o actividades.

(r) Dentro de los noventa días siguientes a la finalización de cada ejercicio fiscal, presentar al GOCR y a los Donantes una auditoría del Fondo de Exportaciones, certificada por una firma de contadores públicos autorizados cuyo nombre aparezca en la lista de firmas acordada por el GOCR y los Donantes. Cada tres años, por lo menos, la Junta Administradora contratará una firma diferente. El alcance de las auditorías será definido conforme se establece en el Artículo IX de este acuerdo; sin embargo, cada auditoría deberá abrazar la exactitud de los estados financieros, la idoneidad de los sistemas financiero, administrativo y de provisión, y el cumplimiento de este acuerdo por parte de la Junta.

(s) Abstenerse de pagar impuestos contra el Fondo, sin previa notificación y consulta a los Donantes.

(t) Ceder el control del Fondo de Exportaciones y entregar los activos del Fondo, cuando termine este acuerdo, de conformidad con la Cláusula 10.2.

ARTICULO V INVERSIONES

CLAUSULA 5.1 Inversiones Permitidas.

Los dineros del Fondo de Exportaciones que no hayan sido desembolsados a las agencias o a los ejecutores de los trabajos o actividades y que sobrepasen las necesidades de operación del Fondo, deberán ser invertidos y reinvertidos continuamente por la Junta Administradora del Fondo de acuerdo con los términos y condiciones particulares de cada Donante, o en su defecto en Bonos de Estabilización Monetaria comprados directamente al BCCR, a las tasas de interés vigentes, hasta que el BCCR autorice invertir los recursos del Fondo en otros valores. A partir de dicha autorización, la Junta no será requerida ni podrá ser obligada a comprar títulos-valores del BCCR. La Junta si podría seguir invirtiendo o volver a invertir en títulos-valores del BCCR, si considera atractiva esa inversión.

Cuando el BCCR autorice el retiro parcial o total del Fondo, la Junta Administradora podrá bajo su exclusivo y absoluto criterio y responsabilidad, comprar, vender, ceder, aceptar cesiones, endosar, cambiar, depositar, invertir, reinvertir, y redimir los activos del Fondo o tomar cualquier otra acción apropiada y prudente para preservar y aumentar el Fondo y obtener el rendimiento más favorable en la inversión y reinversión de los activos del Fondo, debiendo sin embargo tomar en consideración el impacto de las inversiones del Fondo en la economía de Costa Rica, de acuerdo con los estándares de pericia, cuidado, prudencia y diligencia propios de un administrador de capitales experimentado,

cuidadoso, prudente y profesional, sin necesidad de consulta, aprobación o consentimiento, con las siguientes limitaciones:

- (a) no comprará títulos de deuda del sector privado cuyas emisiones no estén debidamente autorizadas por y registradas en la Bolsa Nacional de Valores, S. A.;
- (b) no invertirá en acciones, bienes inmuebles, metales preciosos ni productos agrícolas o industriales de ninguna clase, sin autorización por escrito del GOCR y el respectivo Donante;
- (c) no hará préstamos de dinero;
- (d) no invertirá en títulos que previamente y por escrito hayan señalado el GOCR y el respectivo Donante como bloqueados;
- (e) no hará inversiones especulativas, definidas éstas como inversiones en negocios o transacciones financieras de muy elevado riesgo para obtener ganancias desproporcionadamente grandes;
- (f) no hará inversiones en negocios situados en el extranjero; y
- (g) cumplirá con los requisitos del Anexo _____ a este acuerdo.

CLAUSULA 5.2 Aumento del Fondo.

Excepto que se especifique de otra manera, el producto de las inversiones o reinversiones que haga la Junta Administradora y de las contribuciones adicionales que acepte la Junta, pasará a formar parte del Fondo, como aumento.

**ARTICULO VI
DE LA JUNTA ADMINISTRADORA**

CLAUSULA 6.1 La Junta Administradora.

La Junta Administradora se compondrá de cinco Directores, así:

(a) Un Presidente, nombrado por el GOOCR, en consulta con los Donantes, por un período inicial de cinco años.

(b) Un Vicepresidente, un Secretario, un Tesorero, y un Fiscal, nominados por los Donantes en proporción a sus contribuciones, para lo cual las contribuciones totales se dividirán por el número de Directores a nominar y por cada contribución igual al cociente cada Donante nominará un Director. Los nombres así nominados deberán ser consultados con y aprobados por el GOOCR. Si el GOOCR no aprueba los nombres, cada Donante con derecho a elegir un Director, deberá presentar una terna al GOOCR con otros nombres para que el GOOCR escoja una de las tres personas. Estos nombramientos se harán por tres, cuatro, cinco y seis años, respectivamente, hasta el 31 de diciembre del año en que venza cada nombramiento. Seguidamente los nombramientos se harán por períodos fijos de cinco años. Después del 31 de diciembre de 1994, los nombramientos se harán por acuerdo del GOOCR y el respectivo Donante, en reunión informal con representantes del GOOCR. Si de la reunión no hay acuerdo, el GOOCR nominará un candidato, que el Donante puede aceptar o rechazar. Si ese candidato es rechazado por el Donante, el cargo quedará vacante hasta que el GOOCR y el Donante lleguen a un acuerdo sobre algún candidato.

CLAUSULA 6.2 Renuncia, Incapacidad o Remoción.

Los Directores de la Junta Administradora podrán renunciar o separarse por incapacidad. El GOCR podrá unilateralmente remover al Presidente en cualquier momento. Antes del 31 de diciembre de 1994, cada Donante podrá remover en cualquier momento al Director que ha nombrado por sí solo. Para la remoción de los demás Directores, se necesitará acuerdo expreso del GOCR y el Donante responsable del nombramiento. Las vacantes se llenarán por el resto del período del Director saliente, de acuerdo con el procedimiento que se utilizó para hacer el nombramiento del Director saliente.

CLAUSULA 6.3 Convocatoria a Reuniones.

Se hará por escrito una convocatoria para todas las reuniones de la Junta Administradora a cada Director en el o antes del décimo día anterior a la reunión. La convocatoria deberá indicar el lugar, la fecha, la hora y la índole general de los asuntos a tratar. Cuando una reunión se cambia a otro lugar, otra fecha u otra hora, y el lugar, fecha y hora de la reunión aplazada se anuncia en la misma reunión en que se decide el cambio, será necesario no obstante, dar notificación escrita de la nueva reunión de la misma manera que para otras reuniones dispone esta cláusula.

CLAUSULA 6.4 Quórum.

Una mayoría de la Junta Administradora constituirá quórum para el conocimiento de los asuntos del Fondo, en cualquier reunión.

CLAUSULA 6.5 Votos.

Cada Director tendrá un voto. Todas las decisiones y acciones que se tomen con respecto al Fondo de Exportaciones deberán contar con la aprobación de una mayoría absoluta de los Directores, presentes o ausentes, en una reunión de la Junta en la cual exista quórum.

ARTICULO VII**RESPONSABILIDAD****CLAUSULA 7.1 Responsabilidad de la Junta Administradora.**

La Junta Administradora, los Directores y los asesores, agentes, apoderados, administradores o representantes que nombre o designe la Junta, solo serán responsables por falta, culpa o negligencia graves o dolo en la atención, manejo y disposición del Fondo de Exportaciones.

CINDE, la Junta Administradora y las personas citadas en el párrafo anterior, no serán responsables de las pérdidas, daños o perjuicios que por fuerza mayor o caso fortuito sufrieren los bienes del Fondo.

CINDE, la Junta Administradora y las personas citadas en el párrafo primero de esta cláusula, no serán responsables de ninguna acción tomada u omitida de acuerdo con disposiciones expresas de este acuerdo, de un Contrato de Transferencia o de acuerdos o instrucciones de las partes.

CLAUSULA 7.2 Ejercicio de Acciones.

Cualquiera de las partes de este acuerdo que fuere o se considerare perjudicada por actos, actuaciones, resoluciones o acciones de la Junta Administradora, los Directores o de las otras personas mencionadas en la Cláusula 7.1, podrá exigir y demandar su responsabilidad, dentro del año

siguiente a la fecha en que sucedieron los hechos generadores de responsabilidad.

CLAUSULA 7.3 Limitación de la Responsabilidad.

La responsabilidad de las personas mencionadas en la Cláusula 7.1 se limitará al resarcimiento de los daños y perjuicios realmente causados, sin perjuicio de las acciones penales que fueren procedentes.

ARTICULO VIII

INDEMNIZACION

CLAUSULA 8.1 Indemnización a CINDE.

La Junta Administradora indemnizará a CINDE, con activos del Fondo, las pérdidas, daños o perjuicios verdaderamente causados a CINDE por actos, actuaciones, resoluciones o acciones de la Junta Administradora o sus apoderados en la administración, inversión, custodia o disposición del Fondo de Exportaciones, violatorios de este acuerdo o del ordenamiento jurídico. Tal indemnización comprenderá el resultado, e inclusive una eventual condenatoria en costas, de cualquier acción, juicio o demanda contra CINDE originado en actuaciones o resoluciones de la Junta Administradora o de sus apoderados.

CLAUSULA 8.2 Determinación de la Indemnización.

Cualquier indemnización que fuere procedente bajo la Cláusula 8.1, a menos que sea ordenada por un tribunal, será acordada y determinada por la Junta Administradora, de acuerdo con las circunstancias y por montos adecuados a las pérdidas, daños o perjuicios realmente sufridos.

ARTICULO IX

SUPERVISION

CLAUSULA 9.1 Funciones de AID.

La AID acepta, hasta el 31 de diciembre de 1994, las siguientes funciones:

(a) Seguir los resultados del Fondo y de los trabajos o actividades financiados por el Fondo.

(b) Tomar medidas para resolver o ayudar a resolver los problemas que surjan, incluyendo las deficiencias o irregularidades anotadas en los informes de auditoría.

(c) Revisar y aprobar los presupuestos que presente la Junta Administradora de acuerdo con la Cláusula 4.3(o), y los alcances de las auditorías exigidas por la Cláusula 4.1(q) y (r).

(d) Resolver con la Junta Administradora acerca de interpretaciones de las cláusulas de este acuerdo. Cualquiera de esas interpretaciones se ejecutará siete días calendario después de notificar por escrito al GOOCR. Sin embargo, si el GOOCR hace saber alguna objeción dentro de dichos siete días, entonces se suspenderá la ejecución de la interpretación en cuestión hasta que se llegue a un acuerdo por escrito con el GOOCR.

CLAUSULA 9.2 Requisitos de Implementación de AID.

Hasta el 31 de diciembre de 1994, las operaciones del Fondo se regirán por las normas y procedimientos estipulados en el Anexo _____ a este acuerdo. Durante ese período, AID tendrá derecho de supervisar y demandar el cumplimiento de las disposiciones contenidas en dicho Anexo _____, incluyendo la facultad de adoptar junto con la

Junta Administradora interpretaciones o cambios de las mismas disposiciones. Tales interpretaciones o cambios no requerirán para su ejecución de la notificación que exige la Clausula 9.1(d).

CLAUSULA 9.3 Supervisión Después de 1994.

El GOCR y la AID acordarán oportunamente quien ejercerá las funciones establecidas en las Cláusulas 9.1 y 9.2 y cuáles regulaciones de las contenidas en las Cláusulas 9.1 y 9.2 continuarán siendo aplicadas, después del 31 de diciembre de 1994.

ARTICULO X

PLAZO

CLAUSULA 10.1 Duración del Fondo de Exportaciones.

El primer período del Fondo terminará el 31 de diciembre de 1996. Seis meses antes, el GOCR y los Donantes harán una evaluación. Basados en los resultados de esa evaluación y las necesidades de Costa Rica en ese momento, el GOCR y los Donantes podrán:

- (a) revisar los fines y propósitos del Fondo, cambiar los términos y condiciones de este acuerdo o disponer la continuación del Fondo por otro período de cuatro años, sujeto a que la Junta Administradora apruebe los cambios y esté de acuerdo en continuar administrando el Fondo; ó
- (b) retirar una parte o todos los activos del Fondo, sin perjuicio de los compromisos existentes.

A falta de acuerdo al 31 de diciembre de 1996, el plazo de este acuerdo se tendrá por prorrogado de pleno derecho por otro período de cuatro años más y así sucesivamente.

CLAUSULA 10.2 Liquidación del Fondo de Exportaciones.

Cuando el Fondo termine, según la Cláusula 10.1 o antes por haberse agotado o consumido el principal, la Junta Administradora liquidará el Fondo pagando o disponiendo lo necesario para pagar todas los pasivos u obligaciones del Fondo, terminar todos los contratos existentes y las operaciones pendientes, y cobrar los créditos del Fondo. El remanente se distribuirá de acuerdo con lo que resuelvan el GOCR y los Donantes.

CLAUSULA 10.3 Finiquito.

Toda terminación parcial o total, deberá ser objeto de una auditoría del Fondo a la fecha de la terminación y de un finiquito amplio para la Junta Administradora, los Directores y las demás personas mencionadas en la Cláusula 7.1 de este acuerdo, que las partes se comprometen a otorgar a más tardar noventa días hábiles después de la terminación, si no tienen ningún reclamo que hacer. Los gastos y honorarios del finiquito se pagarán contra el Fondo.

ARTICULO XI

MISCELANEOS

CLAUSULA 11.1 Reforma.

Este acuerdo sólo podrá ser reformado por acuerdo del GOCR, los Donantes y la Junta Administradora, expresado por escrito y en documento firmado por ellos. Sin embargo, cualquier reforma que modifique las

obligaciones del BCCR o le imponga otras obligaciones, para ser vinculante en contra del BCCR, tendría que ser consentida adicionalmente por el BCCR.

CLAUSULA 11.2 Remuneración.

Los Directores desempeñarán sus cargos sin remuneración de ninguna clase. La Junta les reembolsará los gastos razonables en que incurran por asistencia a reuniones o en el desempeño de servicios para el Fondo de Exportaciones.

CLAUSULA 11.3 Gastos.

Todos los desembolsos o gastos relacionados con la ejecución de este acuerdo que haga o incurra la Junta Administradora, los debitará la Junta contra el Fondo.

CLAUSULA 11.4 Divisas.

El BCCR acuerda proveer a CINDE, para el Fondo de Exportaciones o para programas financiados por el Fondo, divisas en cantidad razonable, a cambio de colones, para cubrir gastos o costos en moneda extranjera. La demanda de las oficinas en el extranjero de promoción de inversiones, se estima en trescientos mil dólares americanos, mensuales.

CLAUSULA 11.5 Impuestos.

Este acuerdo está exento del pago de cualquier impuesto o especie fiscal, de acuerdo con la Ley No. 3.011 de 18 de julio de 1962.

CLAUSULA 11.6 Idioma.

El idioma español de este acuerdo prevalecerá sobre cualquier otro idioma a que sea traducido. Sin embargo, el idioma inglés del anexo a que

se refiere la Cláusula 9.2 prevalecerá sobre cualquier otro idioma a que sea traducido.

CLAUSULA 11.7 Protocolización.

Cada parte se reserva el derecho de protocolizar este acuerdo ante un notario público o de autenticar su fecha y firmas, sin necesidad de citación previa de la otras o de su comparecencia.

CLAUSULA 11.8 Notificaciones.

Toda notificación, solicitud, documento u otra comunicación que remita una de las partes a otra, al tenor del presente acuerdo, se hará por escrito o por telex o telegrama o telecopiadora, y se tendrá por debidamente dado o enviado al ser entregado a la parte correspondiente en las siguientes direcciones:

Al GOCR:

Telex No. _____

Telecopiadora No. _____

Al BCCR:

Telex No. ____

Telecopiadora No. _____

A AID:

Telex No. _____

Telecopiadora No. _____

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A CINDE o a la JUNTA ADMINISTRADORA:

Telex No. _____

Telecopiadora No. _____

CLAUSULA 11.9 Firma del Acuerdo.

La firma de este acuerdo por los representantes legales de cada una de las partes cuyos cargos se indican seguidamente, ha sido debidamente autorizada por

los respectivos gobiernos y por los respectivos órganos de cada entidad.

Por el GOCR, _____ . Por el BCCR,

_____. Por AID, _____ . Por

CINDE, _____ .

EN FE DE PLENO ACUERDO CON LO ANTERIOR, las partes firmamos este acuerdo en cuatro tantos en el lugar y fecha indicados al principio.

GOBIERNO DE COSTA RICA

Por: _____

Cargo:

Por: _____

Cargo:

66

BANCO CENTRAL DE COSTA RICA

Por: _____

Cargo:

**AGENCIA PARA EL DESARROLLO
INTERNACIONAL**

Por: _____

Cargo:

**COALICION COSTARRICENSE DE INI-
CIATIVAS DE DESARROLLO**

Por: _____

Cargo:

[1-25-90 translation of 1-17-90 draft]

Informal English Translation:

Draft Programming Agreement for Export Fund

AGREEMENT executed ____, 1990, in San José, Costa Rica, between:

The GOVERNMENT OF THE REPUBLIC OF COSTA RICA, represented by _____, referred to hereafter as the "GOCR";

The CENTRAL BANK OF COSTA RICA, represented by _____, referred to hereafter as the "BCCR";

The GOVERNMENT OF THE UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT, hereafter referred to as "AID"; and

The COSTA RICAN COALITION FOR DEVELOPMENT INITIATIVES, represented by _____, hereafter referred to as "CINDE".

WHEREAS....

NOW THEREFORE the above parties enter into the following Programming Agreement:

ARTICLE I

DEFINITIONS

CLAUSE 1.1 Definitions.

In this agreement, the following terms shall have the meaning indicated below:

- (a) "Special Account", Account #215-03-033/4 in the BCCR;
- (b) "Separate Investment Account", Account # _____ of CINDE in the BCCR, established in accord with the Memorandum of Understanding executed December 23, 1988 among the BCCR, CINDE, and AID;
- (c) "Contribution Agreement", a contract or agreement under which a Donor makes additional contributions to the Export Fund;
- (d) "Director(s)", a member or members of the Board of Directors;

(e) "Donor(s)", AID or any government, institution, entity or person, or combination of governments, institutions, entities or persons who have participated with the GOOCR in the programming or contribution of resources to the Fund;

(f) "Exports", sale to foreign parties of goods or services, including tourist services, data entry and processing, and other hard-currency-generating services;

(g) "Non-traditional Exports", Costa Rican exports to markets outside the Central American Common Market other than sugar, unprocessed coffee, unprocessed banana, and unprocessed beef;

(h) "Export Fund" or "Fund", the fund created under Clause 2.1 of this agreement;

(i) "Board of Directors" or "Board", the board created under Clause 2.2 of this agreement.

ARTICLE II

THE FUND AND THE BOARD

CLAUSE 2.1 The Export Fund.

AID, with the consent and approval of the GOOCR, agrees herein to the transfer to CINDE, from the Special Account, the sum of _____ colones, and to the deposit of that sum in the Separate Investment Account, in order to establish a fund to finance programs in support of Non-traditional Exports. This account, together with any other account or sub-account provided in this agreement, and any asset which is acquired with funds from the Separate Investment Account or other such accounts or sub-accounts, or from additional contributions to any such accounts, shall be called the "Export Fund".

The amounts previously deposited in the Separate Investment Account pursuant to the Memorandum of Understanding executed December 23, 1988 among the BCCR, CINDE, and AID, together with the interest which has been earned or received on those amounts through the end of 1990, will continue to be available to finance the operations of CINDE during 1990, subject to the terms and budget limits of that Memorandum of Understanding. With the exception provided in the preceding sentence, all funds deposited or to be deposited in the Separate Investment Account shall be subject to the terms and conditions of this agreement.

CLAUSE 2.2 The Board of Directors.

The GOOCR and AID agree to create a board of five members, which shall be called the "Board of Directors", to handle the management, investment, and custody of the Export Fund.

CLAUSE 2.3 Delegation.

CINDE hereby delegates totally and irrevocably to the Board of Directors, without any restriction, the management, investment, and custody of the Export Fund, from the moment at which the Board is named in accordance with this agreement. Therefore, only the Board of Directors and those empowered pursuant to Clause 2.4 of this agreement shall have authority, power, or control over the Export Fund, including the power to negotiate with respect to interpretations or modifications of this agreement and to accept additional contributions to the Fund.

CLAUSE 2.4 Power of Attorney

CINDE shall by separate document confer on the President and Vice-President of the Board of Directors an unrestricted general power of attorney for the execution of all acts or contracts related to the management, investment, or custody of the Export Fund, exclusively. The recipients of this power of attorney shall always act in compliance with the decisions of the Board. The Board of Directors shall determine the discretionary powers of the recipients of the power of attorney, and shall determine the cases in which the power of attorney must be exercised jointly by the recipients. The power of attorney shall expire upon the dissolution and final liquidation of the Fund.

CLAUSE 2.5 Ownership of Assets

All of the assets of the Export Fund shall be the property of CINDE. The Board of Directors shall make all investments in the name of, and for the account of, CINDE, and shall require that all securities issued in the name of or to the order of a specific party, and any documents of sale for these or any other assets or bearer securities, shall be issued in the name of CINDE/Export Fund. The Board of Directors will at all times identify such assets, and any other assets of the Fund, as property of CINDE/Export Fund.

CLAUSE 2.6 Acceptance.

The BCCR agrees that it will effect the transfer of the initial deposit of the Export Fund to the Separate Investment Account during the next three business days after the signing of this agreement, pursuant to Clause 2.1 of this agreement. CINDE accepts the deposit and agrees that the Board of Directors shall manage of the Fund in accord with this agreement.

CLAUSE 2.7 Additional Contributions.

The Board of Directors may at any time accept additional contributions of money or other assets to the Export Fund, from the GOCR, AID, or any other government or contributor, when, in the judgement of the Board, such contributions will promote the goals and purposes of the Fund. All additional contributions will be deposited in the Separate Investment Account and shall be added to the Fund, except to the extent that a Contract of Transfer provides to the contrary or that the Board of Directors judges that certain assets should be segregated because of special conditions or restrictions applicable to them.

All initial or subsequent contributions made to the Export Fund shall be treated as a single fund.

CLAUSE 2.8 Contribution Agreements.

A. Any additional contributions which the Board of Directors accepts and receives from the GOCR, AID, or any other government or contributor may be subject to such conditions or restrictions as specified in a Contribution Agreement.

B. Any contributor may confer on the Board of Directors additional or different functions or powers with respect to the assets transferred, by means of a Contribution Agreement.

C. Except to the extent that a Contribution Agreement provides otherwise, all the provisions of this agreement shall apply to the assets transferred in the Contribution Agreement.

ARTICLE III

GOALS AND PURPOSES

CLAUSE 3.1 Goals and Purposes of the Fund.

The goal and purpose of the fund created under this agreement are to encourage, promote, improve, and increase Non-Traditional Exports, principally by means of:

- (a) financing programs directed at facilitating, improving, and increasing Costa Rica's international trade destined to other countries;
- (b) attracting foreign investment to Costa Rica;
- (c) encouraging tourism in Costa Rica;
- (d) stimulating activities which generate foreign exchange; and
- (e) securing the human and technological resources to improve and increase Costa Rica's international trade.

ARTICULO IV

AUTHORITIES AND OBLIGATIONS

CLAUSE 4.1 Authorities of the GOCR and the Donors in Definition of Strategy.

A. The GOCR proposes, and AID accepts, a list of types of programs and annual levels of finance, which is incorporated in this agreement as Annex I. The Board of Directors will execute the programs provided in this list, taking whatever steps are necessary to fulfill the goals and purposes of this agreement, as long as the list is in force and has not been amended.

B. When another donor contributes to the Fund, or at any other time, the GOOCR may amend the list of types of programs and budgets, subject to the written agreement of any Donors who have not waived this right. The GOOCR will inform the Board in writing of the agreed changes to be executed.

CLAUSE 4.2 Authorities of the Board of Directors.

The Board of Directors shall be the body charged with taking the necessary steps to effect the types of programs agreed by the GOOCR and the Donors. It shall have full power, right, and authority, equivalent to that of the owner of the resources, to manage the Export Fund and accomplish the goals and purposes described in Clause 3.1, subject to the express provisions of this agreement. The Board of Directors is expressly authorized to carry out, but is not limited to, the following functions:

(a) Selecting the agencies to implement the activities, assigning them the necessary resources, and monitoring them, based on defined targets. The Board will assign them resources for periods which are sufficient to allow for prudent planning and continuity of the activities. Nevertheless, it shall at no time commit resources for periods of more than three years, without written authorization from the GOOCR and the relevant Donor(s).

(b) Varying by no more than twenty percent the annual amounts budgeted by the GOOCR for each type of program, based on technical considerations, subject to prior notification of the GOOCR and the relevant Donor(s). The variance may be implemented unless the Board receives a written objection signed by the GOOCR and the relevant Donor(s) within fifteen business days of their notification by the Board of the proposed variance.

(c) Determining the conditions and the periods of disbursement of the resources assigned to each task or activity.

(d) Conducting or procuring studies and conferences which contribute significantly to promoting Exports, at the Board's own initiative or at the request of the GOOCR. Other than such studies or conferences, the Board shall not finance any other activity not mandated by the GOOCR. The annual costs of such studies and conferences shall not exceed two percent of the income generated by the Fund's investments during the respective period, absent written authorization from the GOOCR and the Donors.

(e) Consulting with the GOOCR and the relevant Donor(s) in the event that the Board judges at any time that it is not technically or economically feasible to comply with the prevailing list of types of programs and annual budgets. If after such consultation, the Board continues to conclude that the budget of an activity in question should be reduced or eliminated, the Board may proceed to do so, unless the GOOCR and the relevant Donor(s) agree to the contrary.

(f) Concluding contracts and incurring obligations in the name of CINDE and for the account of the Export Fund on matters related to the Fund.

(g) Considering and resolving other matters which the Board of Directors determines to fall within their exclusive competence under the terms of this agreement, or which a Contribution Agreement or other agreement entrusts to the Board.

CLAUSE 4.3 Obligations of the Board of Directors.

(a) Take all necessary steps for the accomplishment of the goals and purposes of this agreement.

(b) Finance with Fund resources the types of programs which the GOOCR mandates pursuant to Clause 4.1. As a general policy, disbursements for costs of administration or programs shall be limited to the amount of interest earned by the Fund, less inflation. However, in exceptional circumstances, and with the written approval of the GOOCR and the Donors, the Board may make disbursements which exceed this limit, when in their judgement it is necessary to accomplish the goals and purposes of the Export Fund.

(c) Invest and reinvest continuously the available resources of the Fund which are not being used for the activities described in Clause 3.1, in accordance with the provisions of Clause 5.1.

(d) Account for the assets of the Fund separate from any other assets.

(e) Maintain custody of all money, securities, and other assets of the Fund; and take all steps, exercise all care, and employ all resources necessary to insure that as a general matter the assets of the Fund maintain and increase their value.

(f) Collect all the interest, dividends, or other money due the Fund.

(g) Maintain accounts of all the financial movements of the Fund and retain documentation for all such operations.

(h) Establish dependable systems and procedures for monitoring and control of the investments and assets of the Fund.

(i) Maintain insurance on Fund assets for classes (including positions and payments in transit) and amounts which are sufficient in the Board's judgement to protect such assets.

(j) Exercise all rights and take all administrative or legal actions which are appropriate to insure the fulfillment (or, as appropriate, the termination) of contracts with the parties executing the tasks or activities for which the Board of Directors has contracted.

(k) Exercise all rights and take all administrative or legal actions which are necessary or appropriate to defend, preserve, and increase the Fund.

(l) Contract, in the name of CINDE and on behalf of the Fund, personnel to manage the affairs of the Fund, subject to the limitation that the annual administrative budget, exclusive of investment commissions and costs directly related to the custody or redemption of investments, shall not be greater than one percent [note: this will have to be waived in initial years] of the income generated by the investment of the Fund for the given year, unless the GOOCR and the Donors agree otherwise in writing.

(m) Refrain from delegating the functions of the Board. However, the Board may contract, in CINDE's name and on the Fund's behalf, employees, advisors, agents, independent professionals or firms to administer or process its own affairs.

(n) Refrain from using Fund resources for purposes different from or contrary to those provided in this agreement.

(o) Develop and submit for approval as provided in Article IX of this agreement an annual budget for the administrative expenses of the Fund and for the studies and conferences carried out by the Fund, within the limits imposed by Clauses 4.2(d) and 4.3(l). After December 31, 1994, in the event of disagreement between the Board of Directors and any other party concerning the administrative budget, the administrative budget of the previous year shall govern, unless the GOCR and the Donors agree otherwise.

(p) Present a semi-annual report to the GOCR and all the Donors, 45 business days after the end of June and December, which contains at least the following information:

- (i) a summary of all commitments for financing of tasks or activities which have been entered into by the Board of Directors and which are in force as of the date of the report, including at a minimum their amounts, time periods, and defined targets;
- (ii) a report on the performance of the tasks or activities in comparison with their defined targets,
- (iii) a description of any substantial deficiency or irregularity found in the audits of entities executing the tasks or activities,
- (iv) a summary of the activities undertaken directly by the Board of Directors during the period of the report, including results achieved; and
- (v) the unaudited financial statements of the Fund for the corresponding period.

(q) Insure that an annual audit of all programs financed by resources of the Fund is conducted by a firm of certified public accounts chosen from a list of firms agreed to by the GOCR and the Donors. At least every three years a different firm will be used. The scope of work for the audits will be determined in accordance with the provisions of Article IX of this agreement, and will cover at a minimum the accuracy of financial statements, the adequacy of systems of internal control, and the executing entities' compliance with the terms of the relevant agreement.

(r) Present to the GOCR and the Donors, within ninety calendar days of the end of each fiscal year, an audit of the Export Fund, executed by a firm of certified public accounts drawn from a list of such firms agreed to by the GOCR and the Donors. The scope of work for the audits will be determined in accordance with the provisions of Article IX of this agreement, and will cover at a minimum the accuracy of financial statements, the adequacy of systems of internal control, and the compliance by the Board with this agreement.

(s) Refrain from paying taxes on the Fund, without prior notification of and consultation with the Donors.

(t) Deliver control of the Export Fund and its assets in accordance with Clause 10.2 if and when this agreement terminates.

ARTICLE V

INVESTMENTS

CLAUSE 5.1 Permissible Investments.

The resources of the Export Fund which have not been disbursed to executing entities and which are in excess of the current operational requirements of the Fund shall be invested and reinvested continuously by the Board of Directors of the Fund in accordance with the specific terms and conditions provided by each Donor, or in the absence of such specific provisions, in Monetary Stabilization Bonds of the BCCR at prevailing interest rates, until the point at which the BCCR authorizes release of the resources for investment in other securities. After such authorization, the Board will shall not be obligated to invest in BCCR securities, but may in its discretion invest in such securities if it considers them attractive.

When the BCCR authorizes the partial or total release of the Fund, the Board of Directors may at its exclusive judgement and absolute responsibility buy, sell, transfer, accept transfers of, endorse, exchange, deposit, invest, reinvest, and redeem the assets of the Fund and take any other appropriate and prudent action to preserve and increase the Fund and to obtain the most favorable return on the investment and reinvestment of Fund assets. At the same time, the Board shall take into consideration the impact of the Fund's investments on the economy of Costa Rica. These activities shall be carried out in accordance with standards of expertise, care, prudence and diligence which would characterize an experienced, careful, prudent, and professional fund manager, without any requirement of consultation, consent, or approval, but subject to the following limitations:

- (a) The Fund shall not buy issues of private sector securities which have not been duly registered and authorized by the National Securities Exchange;
- (b) The Fund shall not invest in equity, real estate, precious metals, or any type of agricultural or industrial products without the written authorization of the GOCR and the relevant Donor(s);
- (c) The Fund shall not make direct loans;
- (d) The Fund shall not invest in securities which the GOCR and the relevant Donor(s) have prohibited in writing from time to time;
- (e) The Fund shall not make speculative investments, defined as very risky investments in businesses or other financial transactions in order to obtain extraordinary returns;
- (f) The Fund shall comply with the requirements of Annex II to this Agreement.

ARTICLE VI

THE BOARD OF DIRECTORS

CLAUSE 6.1 The Board of Directors.

The Board of Directors shall be comprised of five Directors, as follows:

(a) A President, named by the GOOCR, after consultation with the Donors, for an initial term of five years.

(b) A Vice-president, a Secretary, a Treasurer, and a Fiscal, subject to nomination by the Donors in proportion to their contributions. The implementation of this proportional representation will be determined among the relevant parties at the time of additional contributions to the Fund by other donors. The candidates nominated by the Donors will be subject to review and approval by the GOOCR. If the GOOCR rejects a candidate, the respective Donor will submit a slate of three other candidates to the GOOCR, who shall approve one of these candidates. The nominations of these four Directors shall be for terms of three, four, five, and six years respectively, until December 31 of the year in which the term expires. Thereafter, nomination of these four Directors shall be for fixed terms of five years. After December 31, 1994, nomination of these four Directors shall be by agreement between the GOOCR and the relevant Donor(s), based on informal consultations. If such informal consultation does not yield an agreement, the GOOCR shall formally nominate a candidate, to be accepted or rejected by the Donor. If this candidate is rejected by the Donor, the seat shall remain vacant until the GOOCR and the Donor are able to reach agreement on a candidate.

CLAUSE 6.2 Resignation, Incapacity, or Removal.

The Directors may resign or be removed for physical or mental incapacity. The GOOCR may unilaterally remove the President at any time. Other Directors nominated before December 31, 1994 may be removed at any time by unilateral decision of the Donor responsible for their nomination. Other Directors named after December 31, 1994 may be removed at any time by agreement of the GOOCR and the Donor responsible for their nomination. Vacancies shall be filled for the remainder of the departing Director's term by the same procedure which was used in nominating the departing Director.

CLAUSE 6.3 Notice of Meetings.

Written notice of all meetings of the Board of Directors shall be sent to all Directors no later than the ten days before the meeting. The notice shall indicate the date, time and place of the meeting and the general nature of the agenda. When the date, time, or place of a meeting is changed, and the new date, time, or place is announced in the same meeting in which the change is decided, it shall nevertheless be necessary to provide written notice in accordance with the above terms of this clause.

CLAUSE 6.4 Quorum.

A majority of the Board of Directors shall constitute a quorum for any meeting which considers affairs of the Fund.

CLAUSE 6.5 Voting.

Each Director shall have one vote. All decisions and actions taken with regard to the Export Fund shall require the affirmative vote of an absolute majority of the Board, including absent members, at a meeting of the Board at which a quorum is present.

ARTICLE VII

LIABILITY

CLAUSULA 7.1 Liability of the Board of Directors.

The Board of Directors, the individual Directors, and the advisors, agents, attorneys, administrators, or representatives which the Board names or designates, shall be liable only for deceit, or grave negligence or fault in their care, management, or disposition of the Export Fund.

CINDE, the Board of Directors, and the persons mentioned in the preceding paragraph shall not be liable for loss or damage to the assets of the Fund occasioned by force majeure or unpredictable circumstances, nor shall they be liable for any action taken or omitted in accordance with the express provisions of this agreement or other agreements or instructions of the parties.

CLAUSE 7.2 Period of Enforcement.

Any party to this agreement who is or who believes it is prejudiced by acts, decisions, or performance of the Board of Directors, the individual Directors, or the other persons named in Clause 7.1 shall be entitled to enforce the such liability during a period of one year [this period will be increased] after the date of the action which resulted in the liability.

Clause 7.3 Limitation of Liability.

The liability of the persons mentioned in Clause 7.1 shall be limited to compensation of the damages and losses actually caused, without prejudice to criminal actions which may be undertaken.

ARTICLE VIII
INDEMNIFICATION

CLAUSE 8.1 Indemnification of CINDE.

The Board of Directors shall indemnify CINDE, with assets of the Fund, for any loss, damage or prejudice actually caused to CINDE by the acts, decisions, or performance of the Board or any persons authorized by the Board with respect to the administration, investment, custody, or disposition of the Export Fund in violation of this agreement or prevailing law. Such indemnification shall extend to the results, including any eventual judgement as to costs, of any any legal action, complaint, or judgement against CINDE which originates in the activities or decisions of the Board or those authorized by it.

CLAUSE 8.2 Determination of Indemnification.

Any indemnification under Clause 8.1, unless it has been ordered by a court, shall be determined by agreement of the Board of Directors, in accordance with the circumstances and in amounts which are reasonable in light of the losses, damages, or prejudice actually suffered.

ARTICLE IX
MONITORING

CLAUSE 9.1 Functions of AID

AID agrees to exercise the following functions, until December 31, 1994:

(a) Monitoring the results of the Fund and the programs or activities financed by the Fund.

(b) Taking steps to resolve or assist in the resolution of problems which arise, including deficiencies or irregularities noted in audit reports.

(c) Reviewing and approving the budgets which the Board of Directors presents in accordance with Clause 4.3(o), and the scopes of work required under Clause 4.1(q) and (r).

(d) Agreeing with the Board of Directors with respect to interpretation of the clauses of this agreement. Any such agreed interpretation shall take effect seven calendar days after written notification to the GOCR of such agreement; however, if the GOCR communicates any objection within those seven days, the interpretation shall not take effect until it is agreed to in writing by the GOCR.

CLAUSE 9.2 AID Implementation Annex.

Until December 31, 1994, the operations of the Fund shall be subject to the requirements and procedures set forth in Annex II to this agreement. During this period, AID shall have the right to supervise and enforce the provisions of this Annex, including the authority to agree with the Board of Director on interpretations or changes of these provisions. Such interpretations or changes shall not be subject to the notification requirements of Clause 9.1(d).

CLAUSE 9.3 Monitoring After 1994.

The GOCR and AID will agree at an appropriate time as to who will carry out the functions provided in Clauses 9.1 and 9.2, and which of these provisions of Clauses of 9.1 and 9.2 will continue to apply, after December 31, 1994.

ARTICLE X

TERM OF THE FUND

CLAUSE 10.1 Duration of the Export Fund.

The Fund shall operate for an initial period terminating on December 31, 1996. Six months prior to that date, the GOCR and the Donors will carry out an evaluation. Based on the results of that evaluation and the needs of Costa Rica at the time, the GOCR and the Donors may:

- (a) Revise the goals and purposes of the Fund, amend the terms and conditions of this agreement, or determine that the Fund shall continue for a further four-year period, subject to approval by the Board of Directors of the changes in this agreement and their agreement to continue administering the Fund; or
- (b) Withdraw part or all of the assets of the Fund, except such residual amounts as may be necessary to satisfy existing commitments of the Fund.

In the absence of agreement to the contrary as of December 31, 1996 between the GOCR and the Donors, the term of this agreement shall be extended for an additional four years. After each such four year period, the same provisions of this Clause will apply again.

CLAUSE 10.2 Liquidation of the Export Fund.

When the Fund terminates, either pursuant to the provisions of Clause 10.1 or because the Fund's resources have been exhausted, the Board of Directors will liquidate the Fund, making all payments and taking all other steps which may be necessary to satisfy the liabilities or obligations of the Fund, to terminate existing contracts and pending operations, and to collect amounts owing to the Fund. Any remaining assets shall be distributed in accordance with instructions agreed between the GOCR and the Donors.

CLAUSE 10.3 Settlement.

A partial or total termination of the Fund shall be subject to an audit of the Fund as of the date of termination and a full finiquito [legal document of settlement] by the Board of Directors, the Directors, and the other persons specified in Clause 7.1 of this agreement. The parties agree to execute this finiquito no more than ninety business days after the termination, if they have no claims to press. The costs and fees of the finiquito shall be paid out of the Fund.

ARTICLE XI

MISCELLANEOUS

CLAUSE 11.1 Amendment.

This agreement may be amended only by express written agreement of the GOCR, the Donors, and the Board of Directors in a document signed by them. However, any amendment which would modify the obligations of the BCCR or impose further obligations on it will be binding on the BCCR only if the BCCR also signs it.

CLAUSE 11.2 Compensation.

The Directors shall receive no type of compensation for their services. The Board will, however, reimburse them for reasonable costs incurred in their attendance at meetings or their provision of services for the Fund.

CLAUSE 11.3 Costs.

All costs incurred or disbursements made by the Board of Directors in connection with the implementation of this agreement shall be charged to the Fund.

CLAUSE 11.4 Foreign Exchange.

The BCCR agrees to provide to CINDE, for the benefit of the Export Fund or programs financed by the Fund, reasonable amounts of foreign currency, in exchange for colones, to cover foreign currency costs or expenditures. The requirements for operation of overseas investment promotion offices are estimated at US\$300,000 per month.

CLAUSE 11.5 Taxes.

This agreement is exempt from the payment of any tax or fiscal levy, in accordance with Law No. 3,011 of July 18, 1962.

CLAUSE 11.6 Language.

The Spanish language version of this agreement shall take precedence over any translation into another language, except that the English language of Annex II incorporated under Clause 9.2 shall take precedence over any translation into another language.

CLAUSE 11.7 Formal Registration.

Each party reserves the right to formally register this agreement before a notary public, or to authenticate its date and signatures, without the necessity of prior invitation of the other parties or appearance by them.

CLAUSE 11.8 Notice.

Any notice, request, document, or other communication between the parties under the terms of this agreement shall be made in writing or by telex, telegram or telecopier, and shall be effective when delivered to the corresponding party (parties) at the following address(es):

CLAUSE 11.9 Signature.

The signature of this agreement by the legal representatives of each of the parties, whose positions are indicated below, has been duly authorized by the respective governments and by the appropriate organ of the respective entities.

ANNEX I | TO PROGRAMMING AGREEMENT:

A.I.D. IMPLEMENTATION REQUIREMENTS

Until December 31, 1994, the operations of the Fund shall be governed by the following procedures and requirements. During this period, A.I.D. will have the responsibility and authority for monitoring compliance with the provisions of this Annex, and for agreeing to interpretations or changes of these provisions. After December 31, 1994 the GOCR and A.I.D. shall agree as to which of these provisions shall be continued, and who will monitor compliance with them.

The provisions of this Annex shall be in addition to, not in substitution for, the provisions of the main body of the Programming Agreement.

1. Audit and Evaluation. A.I.D. or auditors designated by it shall have the right to audit the records and operations of the Fund at any reasonable time. The Directors will cooperate fully with such audits, and with any reasonable evaluations which A.I.D. may conduct from time to time.
2. Financial Systems. The Directors will cause the Fund to maintain financial records and control systems which comply with Generally Accepted Accounting Principals and which are adequate to segregate and fully account for Fund resources. Prior to making disbursements to any Grantee (i.e. an agency implementing an export promotion program mandated pursuant to Section 4.1 of the Programming Agreement), the Directors shall have obtained A.I.D.'s written approval of the Fund's financial control systems.
3. Disbursement Policy. The Directors shall follow policies and procedures which assure that disbursements to Grantees are made at reasonable intervals and are adequate but not excessive in relation to the actual cash needs of the Grantees' programs. Prior to making any disbursements to a Grantee, the Directors shall have obtained written A.I.D. approval of a Disbursement Policy. Interest and principal will be accounted for separately; except as A.I.D. otherwise instructs, the Fund will draw all disbursements from the principal account until it is exhausted.
4. Pre-Award Qualification Standards. The Directors shall develop and apply a set of pre-award qualification standards, which will govern review of the financial, technical, and managerial capabilities of Grantee organizations. The Directors will make no disbursement to any Grantee until (a) A.I.D. written approval of their pre-award qualification standards has been obtained, and (b) the Directors have determined that the particular Grantee meets these standards.
5. Grantee Selection and Oversight. Selection of Grantees and monitoring of their accomplishments against targets shall be governed by a written policy, approved in writing by A.I.D.

6. Investment Policy. The Directors will obtain written A.I.D. approval of the Fund's investment policies prior to investing Fund assets in any instrument other than Monetary Stabilization Bonds.

7. Personnel. In negotiating a compensation package for the Fund's Executive Director, the other Directors shall use the services of an experienced compensation consultant acceptable to A.I.D. This compensation package shall take into consideration the nature of the position, the qualifications of the candidate(s), and prevailing market conditions. The written recommendations of the consultant shall be kept on file by the Directors.

To the extent that the Fund's personnel are employed directly, the Directors shall use the services of an experienced compensation consultant acceptable to A.I.D. to assist them in preparing a personnel manual and in maintaining compensation at reasonable levels in relation to the market. To the extent that the Fund's personnel are contracted through some outside organization, the Directors shall obtain prior written A.I.D. approval of that organization, and the contracting shall be consistent with that organization's regular personnel policy.

8. Procurement. To the extent that the Fund procures goods and services directly, the Directors shall obtain prior written A.I.D. approval of a procurement manual for the Fund, which shall incorporate prudent and customary business practice and shall rely to the extent practical on competitive procurement. To the extent that an outside organization is used for such procurement, the Directors shall obtain prior written A.I.D. approval of that organization, and the procurement shall be consistent with the regular procurement policies and procedures of that organization.

9. Travel. Per diem rates [viáticos] paid to employees or consultants of the Fund shall be in accordance with prudent and customary business practice, and shall not exceed comparable GOCR per diem rates prevailing from time to time.

10. Payroll Taxes. The Directors shall take all reasonable steps to assure that the methods of compensating Fund personnel, and the Fund's retention and payment of taxes on such compensation, are fully in accord with Costa Rican tax law.

11. Government Salary Supplements. No resources of the Fund shall be used to supplement the salary of any GOCR employee. This prohibition extends to paying compensation above prevailing GOCR levels to any person on leave of absence from the GOCR who retains a right to re-employment by the GOCR.

12. Fund-Raising. The Directors shall not use Fund resources for fund-raising, unless A.I.D. agrees otherwise in writing.

13. Grant Agreements. Any disbursements by the Fund to a Grantee shall be governed by a written agreement between the Fund and the Grantee. All such written agreements shall impose the following terms on the Grantee:

a. The Grantee will provide the reports and audits required under the Programming Agreement, and will cooperate fully with any other reasonable audits or evaluations conducted by A.I.D.

b. The Grantee will maintain financial records and control systems which comply with Generally Accepted Accounting Principles and which are adequate to segregate and fully account for resources obtained from the Fund.

c. In using Fund resources, the Grantee will apply travel policies which are in accordance with prudent and customary business practice. The Grantee will not pay travel per diem rates above comparable GOCR rates prevailing from time to time, unless exceptions are authorized in writing by the Fund Directors for sound justification.

d. In using Fund resources, the Grantee will apply personnel policies which are in accordance with prudent and customary business practice.

e. Grantees' procurement of goods and services with Fund resources shall be in accordance with prudent and customary business practice and shall rely to the extent practical on competitive procurement.

f. Grantees shall not use Fund resources to supplement the salary of any GOCR employee. This prohibition extends to paying compensation above prevailing GOCR levels to any person on leave of absence from the GOCR who retains a right to re-employment by the GOCR.

g. Grantees shall not use Fund resources for fund-raising, except as A.I.D. may otherwise agree in writing.