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MEMORANDUM

February 15, 1990

TO: See Distribution
FROM: Kenneth A. Lanza, OPS *[Signature]*
SUBJECT: Draft of Export Fund "PP-like" Document

The first draft of the Export Fund PP-like document is circulating for review and comments. The substance, as provided in the Preliminary Design document, remains the same. The attached paper reorganizes and amplifies the background in an attempt to conform more completely with a typical PP (to the extent possible).

Revisions will await AID/W guidance which should follow the Feb. 22 DAEC review.

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EXPORT FUND PROJECT

PROJECT PAPER-LIKE DOCUMENT

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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

I. PROJECT SUMMARY

A. The Problem:

During the early 1980's, Costa Rica was plunged into a serious economic crisis. Prices for traditional exports declined significantly and the scarcity of hard currency aggravated a troubled balance-of-payments position. The initial solution was to alleviate the country's shortage of hard currency with cash transfers and to increase its foreign exchange by diversifying its export base. USAID has pursued this strategy since early in the decade with significant gains towards stabilizing the economy while increasing export production and diversity.

The GOCR has already demonstrated its commitment to this structured transformation toward an export-oriented economy, by adopting a broad range of politically difficult policy reforms, including exchange rate rationalization, financial liberalization, tax, tariff and incentive reforms. While the private sector has responded with an extraordinary growth of non-traditional exports averaging 32% per year since 1984, further work remains to be done.

Since growth of non-traditional export to non-CACM markets was the only viable long-term solution to Costa Rica's balance-of-payments problems, USAID incorporated in its program a strong emphasis on policy reform for the export sector. Once the environment had been improved, a series of export and investment promotion programs was required to generate foreign exchange, create employment and attract foreign investment for non-traditional export growth.

The GOCR's promotion programs, meanwhile, had generally been ineffective as was the case with most LDC government operated export and investment programs. Civil services salaries were inadequate to attract the quality of staff required to deal with sophisticated investors and the program directors lacked the flexibility to motivate and manage their personnel. Moreover, operational decisions were frequently subject to political, rather than technical, considerations. Recognizing these problems, the GOCR and USAID agreed that a private sector approach to export development and investment promotion was needed.

CINDE was created in 1982 and began its programs the following year. Since 1985, the results of their effects have been extraordinary. Financing of approximately US\$9 million a year of USAID's ESF resources has been required to maintain CINDE's programs. However, USAID ESF resources are expected to decrease significantly during the next decade making the future funding of CINDE doubtful. Yet, much remains to be done to develop as the country's foundation for export development and investment promotion. CINDE's contribution will continue to be critical to meet the goals of an export-oriented economic strategy.

The problem which this activity will address is securing the future financial sustainability of the export development and investment promotion programs while protecting their operational efficiency and technical integrity.

B. Project Goal and Purpose:

The goal of the Project is to support the continued development of an export-oriented Costa Rican economy while spreading of the benefits of this expansion.

The Project's purpose is to secure a source of funding for export development and investment promotion program which create or improve employment opportunities, increase net foreign exchange reserves, and generate new foreign and domestic investment into the economy.

C. Project Description:

This activity consists of creating an independent, private, Export Fund to finance the CINDE programs and others which support export development and investment promotion for at least four years, through December 1994.

The Fund will finance the four principal programs of CINDE (1) Promotion, (2) Agriculture, (3) Training, and (4) Industrial Development. The Fund's resources will be managed by a Board of Directors of five individuals in accordance with AID-approved terms and conditions. USAID's oversight responsibility will be significantly reduced following December 1994, with the GOOCR, other donors and the Board of Directors itself, filling the oversight role.

D. Project Costs and Funding:

The GOOCR with AID approval will contribute \$27.15 million of 1989 Economic Support Funds and US\$45 million of 1991 Economic Support Funds in local currency. Other donors may be expected to contribute another US\$40 million during 1992. The GOOCR has also agreed to provide c298 million each year for twenty years to support export development activities drawn from an interest spread on Central Bank special lines of credit.

II. PROJECT BACKGROUND AND RATIONALE

A. The Problem:

In the period 1980-82, Costa Rica experienced its most serious economic crisis in many decades. Since 1983, its economy has improved significantly with deep structural problems being reformed and positive measures of growth restored. There remains, however, the task of transforming these still fragile gains into tangible, lasting benefits.

The initial solution chosen to alleviate Costa Rica's economic problems was a structural adjustment program supported by significant donor (A.I.D., IMF, IBRD) injections of hard currency (A.I.D. has provided over \$900 million in Economic Support Fund assistance since 1982). Soon after, Costa Rica sought to increase its own economic growth potential and foreign exchange earnings by developing a viable, diversified export base. CINDE developed into the country's primary implementing organization for supporting the creation of a diversified export base and for promotion investment.

The Mission's primary goals during the period 1982-1989 have been economic stabilization and transformation. To help assure that gains by non-traditional exports were not undermined, balance of payments support was accompanied by policy reforms and project activities to support the export growth of non-traditional products (NTE) objective. In 1982, GDP had declined 7.3%, however, in 1983 it grew 2.9% and continued to expand an average of 4.75% through 1987. In 1988 the economy continued to improve with preliminary estimates showing a real GDP increase of 4.0%. Similarly, inflation which reached 82% in 1982, averaged 17.1% annually between 1984-1987, though it increased to 25% in 1988. Unemployment data show a decline from 9.2% to 5.6% in 1989. Finally, real income has essentially returned to 1977 (pre-crisis) levels.

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 production here a more promising avenue than in many other LDC's. The GOCCR 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 the economy's anti-export bias. It is empirically demonstrable that the Costa Rican economy is superior to that of many of LDC's in spreading the benefits of export growth to the poorer levels of its population.

Finally, significant economic stabilization progress has been made and transformation of the economy toward competitive export continues. If the economic adjustments achieved can be solidified into a permanent foundation, then the basis will have been laid for long-term growth. The problem to be addressed, therefore, is developing an adequate and sustainable mechanism to finance activities which support a competitive and successful export-oriented economy.

B. Prior Project Experience:

USAID and the GOCCR have focused on export development and investment promotion activities since 1982 with extraordinary success. USAID support for CINDE and its programs have been financed every year since 1982 from Economic Support Funds. Funds totalling c1,940 billion through December 1990 have been obligated to PIE (CINDE's investment promotion and export development arm) with impressive results.

USAID's experience with other CINDE activities including the CINDE training program (PROCAP), their agricultural unit (CAAP), and their industrial development program (IMPULSO INDUSTRIAL). In addition, CINDE has provided funding to CENPRO, the government export development agency.

Experiences with these programs have indicated just how successful they are in meeting the objectives of an export development strategy. The results of the programs are, in large part, a matter of demonstrated track record.

The CINDE training program (PROCAP 515-0212), for example, has provided courses for some 13,000 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 extremely high marks in terms of course quality and user satisfaction.

CINDE's agricultural export unit (CAAP 515-0237), is a younger program. Nevertheless, its accomplishments include 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. Recent independent evaluation by AID/W and others have been verified CAAP's contributions to the export effort.

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 NTE's. 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.

CENPRO, the government agency, funded by CINDE, recently-implemented "one-stop" window for processing of export documentation. It has substantially reduced red tape and delays.

C. Relationship to A.I.D. Policy and Strategy:

This Project will be an excellent vehicle by which USAID can directly and expeditiously support Agency and Bureau policies in Costa Rica. It supports Agency and Bureau policy for increasing the role of the private sector in development and, through its emphasis on promoting program sustainability objectives for export development and investment promotion activities.

The primary emphasis of USAID assistance to Costa Rica over the next three to four years will be to help lay the basis for sustained economic expansion, particularly by supporting export-led growth. A secondary focus is to spread the benefits of that growth. The principal means to attain these objectives is through continued support for the recovery and growth of Costa Rica's private sector. This involves support for export development and investment promotion activities aimed at generating more productive employment opportunities, attracting investment and increasing foreign exchange.

USAID's support for the private sector in Costa Rica is ongoing and will continue as new opportunities arise, policy dialogue areas mature, and a new administration comes into power. The Project is, therefore, designed to provide the Costa Rican private sector with the resources and flexibility required to attack problems and respond to specific needs as they arise within export sector.

Finally, the Project is designed to conform with the host-country owned local currency (HCLOC) policy guidance as contained in 88 ST 224820, category IV, "Special Non-Governmental Development Activities".

D. Relationship to Host Country and Other Donors:

The GOOCR interest in this Project closely coincides with that of A.I.D. The Government supports joint efforts to stabilize the Costa Rican economy, while increasing the export of non-traditional products. This project supports our mutual need for a mechanism to provide a self-sustaining source of financing for implementation of export sector activities for as long as the GOOCR and the donors agree it is required. In addition to the commitment expressed by the GOOCR, other donors have indicated their interest in participating in the fund. While it is too premature to determine the extent of those participating, other donors indicated their willingness during the November 1989 Consultative Group in Paris, to proceed with a further appraisal of the proposal. Representatives from the Government of Taiwan have also expressed interest in the possibility of providing a concessionary loan to the Fund of up to US\$40 million.

III. PROJECT DESCRIPTION

A. Goal and Purpose:

The goal of the Project is to support the continued development of an export-oriented Costa Rican economy while spreading the benefits of this expansion. The Project's purpose is to secure a self-sustaining source of funding for export development and investment promotion programs which create or improve employment opportunities, increase net foreign exchange reserves, and generate foreign and domestic investment into the local economy.

The USAID program strategy with its strong emphasis on export development, requires significant levels of funding to continue the successes achieved so far. The Project will provide a source of funds to continue support for as long as required.

B. Project Activities:

The Export Fund is designed to provide a self-sustaining source of financing for export development and investment promotion activities of Costa Rica. While CINDE is currently the only organization which can effectively provide these services, the Export Fund Directors will be free to evaluate other entities providing similar services. Therefore, it is neither practical, possible, or advisable to attempt to fully identify all organizations that may eventually be supported. Nevertheless, the types of activities to be financed initially, have been identified.

The Project's resources will finance activities of the Fund itself and export development and investment promotion programs. The first focusses on the use of resources by the Director's of the Fund for activities which the Directors themselves implement. The second deals with the programs and activities the Export Fund will finance through other entities, principally CINDE, as long as CINDE'S performance is judged to be satisfactory.

1. Fund Activities

A small percentage of the Export Fund resources will be reserved for use by the Fund Directors to advance the export development objectives. A maximum of 2% per year of Fund income will be utilized by the Directors to conduct sector-specific studies and conferences. These studies and conferences may be initiated by the Fund Directors themselves or at the request of the GOOCR. These funds will be use for short-term technical assistance to provide reports and to conduct seminars on topics such as export incentive regimes, impediments to investment and other subjects relevant to the sector.

2. Export Development and Investment Promotion

The Fund's resources will also finance activities undertaken by other organizations (principally CINDE) involved in promoting the sector's development. These activities include investor services, export services, promotion and market information services for the Costa Rican non-traditional export sector.

(A complete description of the activities to be financed can be found in Annex VII, "CINDE Five Year Plan 1989-1993").

The Programming Agreement contains 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 - US\$3.5 million per year"; etc.) The GOCCR may change the prevailing schedule from time to time, subject to the agreement of participating donors.

IV. PROJECT IMPLEMENTATION

A. Project Management

At the end of 1988, the GOCCR 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 GOCCR approval.

The GOOCR has now proposed that this Separate Investment Account should become the Export Promotion Fund. CINDE will 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.

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.

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 will serve without pay. 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 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. (This limit may have to be waived in early years, until the Fund's Corpus builds to its maximum amount).

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. The Board will have discretion to vary scheduled annual funding levels for individual programs by up to 20%. 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 the financing, and its decision can be reversed only by agreement between the GOCR and the donors. Following policies approved in advance by AID (and eventually 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 previously indicated, it is likely that most of the Fund's allocations will be to the 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's 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 V to this paper, pp 15 ff.), which incorporates various specific financial and administrative requirements.

2. USAID Management

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

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

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.

B. Financial Plan and Analysis

1. Financial Management of the Fund Corpus

The Programming Agreement will provide normal guidelines for investment and financial management of the Fund's Corpus. In addition, USAID will approve a written investment policy [LA 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. 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/GOCCR 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.

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 GOOCR. However, these activities would be a modest scope, not to exceed 2% of the Fund's annual income.

2. Financial Controls and Systems

The Mission will assist in, and exercise prior approval over, the design of the Fund's financial system, including its cash management and disbursement policies* [IA 1,3]. Financial controls of implementing agencies financed by the Fund will be subject to a pre-qualification, under standards approved by USAID [IA 4].

3. Resources

The Project 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 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.

- 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).

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

Under the Low Scenario, substantial reductions in real operating levels would 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, will 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).

4. 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 will plan its continuation.

C. Monitoring, Evaluation, Audit and Procurement Plans

1. Monitoring

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.

2. Evaluation

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

3. 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 GOCR 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.

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].

4. 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.

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 and customary business practice, not to exceed prevailing GOCR 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.

D. Responsibilities of USAID in Project Implementation

Article IX of the draft Programming Agreement specifies USAID's responsibilities through 1994:

"(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 GOCR.)

The next clause of the draft agreement 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

* 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.

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 effect, much of the Mission's present oversight 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 GOOCR that USAID is not assuming the position of a fiduciary with respect to GOOCR-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.

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V. SUMMARY PROJECT ANALYSES

A. Technical Analysis

1. General

The need for continued support to the export sector has been established as a result of a number of studies by A.I.D., other donors, and Costa Rican organizations. It is from such analyses that the Mission's objective of supporting export development is generated. In a period of economic restructuring the need for export development assistance is critical to facilitate growth.

The Project's technical design has been structure to provide the required support to the sector while underlying the following essential considerations:

- The entire concept of the Fund is predicated on the proposition that the 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.)

2. Technical Analyses of Fund Use

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.

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.)

** 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.

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.]

B. Economic Analysis

1. General Findings

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 previously mentioned, the GOOCR 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.*

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.

* 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).

(RESERVE FOR ECONOMIC ANALYSIS RESULTS (MARCH 30, 1990))

2. Private Sector Contributions to Export Promotion

The notion of an endowment was one that the Mission was originally reluctant to support, for a pair of reasons. (1) Giving any program a guaranteed lease on life would blunt the healthy pressure to justify future funding by continued results. (2) 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 (See Annex VII). 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.

Direct GOOCR 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 GOOCR budget process would inevitably lead to political inroads against the technocratic independence which has been crucial to the programs' success thus far. Besides, appropriated GOOCR funding would entail application of the same civil service and other bureaucratic constraints which have crippled the effectiveness of almost all of the GOOCR'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.

3. The Need for an 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 GOOCR 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 GOOCR and donors support training for all economic sectors; in this context, PROCAP's training support to non-traditional exporters is not distortionary.

D. ADMINISTRATIVE ANALYSIS

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. The relevant administrative analysis, therefore, concerns CINDE's systems.

Since 1982, Central CINDE has been the organization's coordinating and administrative body charged with:

- Overall planning and integration functions for the operating programs (PIE, CAAP and PROCAP), and
- Providing centralized services to the operating programs including lobbying, accounting, procurement, personnel management and legal services.

Up to 1988, most internal policies and procedures of Central CINDE were not sufficiently formalized and a real need existed for strengthening both administrative and financial systems and procedures in order for CINDE to cope with the ever-increasing complexities of its activities while maintaining tight control over its assets, expenditures and reporting requirements.

Starting in mid 1988, major changes were effected in the overall organizational structure of CINDE:

- The Councils of Directors, to whom the Program Managers had reported in the past, were made advisory bodies only and the Program Managers began to report directly to CINDE's General Manager (who previously had only Central CINDE as a responsibility), giving him budget oversight authority for all of the organization.

- Procurement Department was strengthened by: (1) formalization and expansion of its policies and procedures in a manual with the assistance of Peat, Marwick Mitchell & Co. and (2) reorganization of the Department with specialization along program lines.
- Finance Department was provided with an adequate budget to staff itself in keeping with the increased demands of the programs. Hay Associates was contracted to develop a comprehensive Financial Policies and Procedures Manual.
- A Personnel Department was created (previously only a clerk reporting to Director of Administration and Finance existed), a Manager (ex Hay Group) was hired and the reporting relationship was changed (to the General Manager). A Personnel Manual was developed incorporating all personnel Policies and procedures of the organization. The "Hay System" of personnel management was adopted to provide CINDE with a solid salary administration program.
- Program Policies and Procedures were modified to more adequately serve the needs of Central CINDE with respect to overall organizational requirements regarding documentation and reporting.
- An independent short-term consultant was contracted by CINDE to coordinate and aid in the changes noted above.
- The Board of Directors became less involved in administrative matters and able to focus on more strategic issues.

- The Accounting Department was reorganized (along program lines) and expanded. A new chief accountant was hired and a complete review undertaken of all Balance Sheet A/C's to eliminate problem areas which had built up over time (ie. old A/C's receivable, employee advances). The Department became a much more responsive one and the level of service provided improved (ie. check issuance for program disbursements dropped to 2 days vs. 2 to 3 weeks previously). Month-end closing of the books and financial statement and management report issuance also were greatly speeded up.

- An Internal Audit Department was created reporting directly to the Audit Committee of the Board of Directors. It consists of a Manager (ex Peat, Marwick, Mitchell & Co. Manager on the CINDE A/C) and an assistant. This step has provided the CINDE Board with an excellent control mechanism, enabling them to have an independent look at CINDE's operations (including program results reported).

- Investments. CINDE's General Manager now has direct involvement in investment decisions regarding funds invested in stabilization bonds, certificates of deposit, etc. ... rather than just oversight (re the Finance Director's actions) as in the past.

- Financial Statements have been revised as to formats and data presentation making them an improved management tool.

The changes within CINDE in 1988 and 1989 have created an organization in which responsibilities and controls are centralized to a higher degree than in the past. This has resulted in greatly improved coordination between programs (and Central CINDE), better overall direction, strengthening of the administrative and financial systems and more accurate, timely and meaningful financial statements.

Quarterly financial audits performed by Peat, Marwick, Mitchell & Co. in 1989 have revealed no material internal control weaknesses nor any expenditures which were questioned as to propriety or documentation.

A recent review by USAID's Controller's staff concluded that Administration and Finance had been strengthened and this has resulted in a better control over operations. Also, it was noted that internal control is adequate.

(For a detailed description of CINDE's Administrative and Financial Systems, see Annex VI)

VI. CONDITIONS PRECEDENT AND COVENANTS

A. Conditions Precedent

1. Prior to A.I.D. making the first payment under the Project, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, and prior to disbursement of local currency resources, the GOCR will except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D. the following:

a. A legal opinion of the Attorney General of the Republic certifying that the Project Agreement is signed within the legal limitations of the General Agreement that has been duly ratified through Law No. 3011 of July 18, 1962, and that the representative of the GOCR has been duly authorized to sign it, and constitutes a valid and legally binding obligation of the GOCR in accordance with all of its terms; and

b. A statement of the name of the person holding or acting in the office of the representative of the GOCCR specified in the Project Agreement and of any additional representatives, together with a specimen signature of each person specified in such agreement.

B. Covenants

- (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) 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.
- (5) 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.
- (6) 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.

- (7) Fund resources will not be used to pay salary supplements to GOCR employees.
- (8) Fund resources will not be used to pay fund-raising costs, unless USAID (with AID/W approval) agrees otherwise in writing.

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 GOCR 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 GOCR 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.

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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)

 * EXPORT FUND: HIGH-FUNDING SCENARIO *

	1991	1992	1993	1994	1995	1996	1997	1998	1999	
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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	4,027
Less: User Fees & Private Contrib's (As % of Cost of Operations)	(69) 6%	(119) 9%	(183) 12%	(280) 16%	(402) 20%	(463) 20%	(532) 20%	(612) 20%	(704) 20%	(811) 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	3,216
" " " (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	
-- INCOME ON CINDE INVESTMENTS (Note 5)	72	75	79	83	88	94	100	107	93	
-- INTEREST ON FUND BALANCES (Note 6)	1,104	2,230	3,100	3,583	4,147	4,801	5,548	6,402	7,374	8,374
Subtotal: RECEIPTS	6,074	7,003	3,477	3,964	4,534	5,193	5,947	6,807	7,765	8,774
NET CASH FLOW	4,993	5,799	2,138	2,495	2,925	3,343	3,819	4,360	4,950	5,557
CLOSING FUND BALANCE	7,993	13,793	15,931	18,426	21,351	24,693	28,512	32,872	37,823	43,376
" " " (equiv. in 1989 US\$ 000,000)	73	110	110	110	110	111	111	110	110	110

 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)

(All Amounts Are in C000,000)

 EXPORT FUND: LOW-FUNDING SCENARIO

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
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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	2,600
Less: User Fees & Private Contrib's (As % of Cost of Operations)	(54) 6%	(86) 9%	(120) 12%	(184) 16%	(265) 20%	(304) 20%	(350) 20%	(402) 20%	(463) 20%	(500) 20%
Subtotal: NET COST TO BE FUNDED	846	865	880	966	1,058	1,217	1,399	1,609	1,850	2,100
" " (equiv. in 1989 US\$ 000,000)	7.0	6.9	6.1	5.8	5.5	5.4	5.4	5.4	5.4	5.5
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	100
-- INTEREST ON FUND BALANCES (Note 6)	1,014	1,581	1,833	2,133	2,484	2,888	3,348	3,872	4,464	5,100
Subtotal: RECEIPTS	4,884	1,955	2,210	2,515	2,870	3,280	3,747	4,277	4,855	5,500
NET CASH FLOW	4,038	1,090	1,330	1,549	1,812	2,063	2,347	2,668	3,005	3,400
CLOSING FUND BALANCE	7,038	8,128	9,458	11,007	12,819	14,882	17,229	19,897	22,902	26,302
" " " (equiv. in 1989 US\$ 000,000)	65	65	65	66	66	67	67	67	67	67

 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)

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)

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\$5³ 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.

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TOR: 20:21
 CN: 37287
 CHR: 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; (D) 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; IT DOES NOT AMEND OR MODIFY THAT GUIDANCE. MISSION COMMENTS TO REF D 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.)

Recd. 7/14
 SAID - Costa Rica

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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:

I. 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 APPROPRIATED U.S. FUNDS.

AS STATED IN PARAGRAPH A. 3 BELOW, PROGRAMMING MUST BE CONSISTENT WITH THE INTENT AND PURPOSE OF THE FAA OR PL 480. 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

APPROACH TO JOINT PROGRAMMING FOR THE PUBLIC SECTOR BUDGET. (NOTE: EXISTENCE OF A SOUND FISCAL PROGRAM EMBODIED 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 480; IT MAY NOT BE FOR SPECIFIED ACTIONS PROHIBITED BY LEGISLATION GOVERNING APPROPRIATED 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 066242.

--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).

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

-- (6.) HOST GOVERNMENT COMPLIANCE WITH THE TERMS OF THE JOINT PROGRAMMING AGREEMENT SHOULD BE USED AS ONE BASIS 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 480 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.

--I.) 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 HCOLC 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

ALLOCATION DECISIONS.**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 USFS 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. A 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.

--B.) 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 ECOLC 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 ECOLC 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.

--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.

--Y.)

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 UNBIASED, 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 HCCLC WITH A NON-GOVERNMENTAL OR QUASI-GOVERNMENTAL ENTITY.

TRUST FUND PROJECTS OR ACTIVITIES

WHILE ALTERNATIVE IT 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 AL/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 HCCLC FUNDS TO HELP STRENGTHEN THE CAPACITY OF HOST COUNTRY INSTITUTIONS.

ACCOUNT IN IMPLEMENTATION (STATE 866242 DOES NOT DEAL WITH THIS SITUATION. GUIDANCE WILL BE FORTHCOMING).

--C.) MONITORING

-- (1.) THIS IS AID'S RESPONSIBILITY AND MISSION SHOULD EXERCISE THIS RESPONSIBILITY AS IT WOULD FOR A TYPICAL AID PROJECT.

-- (2.) AID 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. DISBURSING OFFICER.

-- (5) FINANCIAL MANAGEMENT IS THE SAME AS FOR APPROPRIATED FUNDS.

--D.) EVALUATION

-- (1.) PP-LIKE DOCUMENT SHOULD REFLECT EVALUATION CONSIDERATIONS AND MISSION SHOULD CONSIDER THESE PROJECTS WHEN DEVELOPING ANNUAL EVALUATION PLAN.

--E.) 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 482 AND AGREEMENTS UNDER THE FAA SIGNED AFTER SEPTEMBER 30, 1988 OR FOR LOCAL CURRENCY IMPLEMENTING AGREEMENTS USING ANY HCOLC AFTER DECEMBER 31, 1988. 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 PPC 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. SEPTIL 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
BT

[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 "GOCCR";

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 GOCCR 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 GOCCR, 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 GOCCR 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 GOCR 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 GOCR 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 GOCR 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 GOCR and the relevant Donor(s).

(b) Varying by no more than twenty percent the annual amounts budgeted by the GOCR for each type of program, based on technical considerations, subject to prior notification of the GOCR and the relevant Donor(s). The variance may be implemented unless the Board receives a written objection signed by the GOCR 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 GOCR. Other than such studies or conferences, the Board shall not finance any other activity not mandated by the GOCR. 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 GOCR and the Donors.

(e) Consulting with the GOCR 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 GOCR 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 GOCR 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 GOCR 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 GOCR 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 GOOCR and the Donors agree otherwise.

(p) Present a semi-annual report to the GOOCR 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 GOOCR 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 GOOCR 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 GOOCR 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 GOCCR and the relevant Donor(s);
- (c) The Fund shall not make direct loans;
- (d) The Fund shall not invest in securities which the GOCCR 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 GOOCR of such agreement; however, if the GOOCR communicates any objection within those seven days, the interpretation shall not take effect until it is agreed to in writing by the GOOCR.

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 GOCCR 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 GOCCR employee. This prohibition extends to paying compensation above prevailing GOCCR levels to any person on leave of absence from the GOCCR who retains a right to re-employment by the GOCCR.

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 GOCCR 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 GOCCR employee. This prohibition extends to paying compensation above prevailing GOCCR levels to any person on leave of absence from the GOCCR who retains a right to re-employment by the GOCCR.

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

DESCRIPTION OF CINDE'S CURRENT ADMINISTRATIVE AND FINANCIAL SYSTEMS

A. PROCUREMENT POLICIES AND PROCEDURES

1. Overview.

Procurement is centralized in CINDE in Central CINDE's Procurement Department. Only petty cash type disbursements are made directly at the program level. The Procurement manager (several years in the function) reports to the Director of Administration and Finance and is responsible for the planning, coordination, direction and execution of the acquisition of CINDE's goods and services (he is also responsible for general office services such as cleaning, maintenance, switchboard, messengers and security).

A comprehensive manual was developed by Peat, Marwick, Mitchell & Co. incorporating CINDE's Procurement Policies and Procedures and this was accepted and installed in CINDE in August, 1988. Periodic reviews are made of the manual to ensure its contents remain current. (A revision currently underway will be completed by January 31, 1990).

2. Internal Control

a. Purchases

i Authorizations and accounting

- All purchase requests initiated are approved by either a Program Manager or the General Manager.
- All purchases (other than petty cash) are made by prenumbered Purchase Orders which indicate payment terms, quantities and prices, total commitment and delivery schedules. P.O.'s are approved by the Procurement Manager, the accountant and the Director of Administration and Finance.
- List of authorized suppliers is maintained.
- The Internal Auditor reviews prices paid periodically vis-a-vis market prices.
- A minimum of three competitive quotes are required or a justification giving rationale why not necessary.
- Purchase Register lists all outstanding P.O.'s. (Partial receipts also controlled via Register).
- All forms and the register are safe guarded.
- Materials and supplies are received by employee (warehouseman), who has no accounting or purchasing responsibilities.

- The Accounting Department performs verification functions such as accounting coding, P.O. comparisons as to price, etc. ...
- Supplier balances confirmed periodically.
- Approval limits scaled up, from Program Managers level to Board of Directors.

b. Inventories

i Physical Control

- Centralized control.
- Prenumbered requisition required for withdrawals.
- Computerized listings show locations, source, etc. of items. Controlled by secretary outside warehouse control.
- Physical inventories taken quarterly and adjustments booked.
- Min/max system used.

ii Valuation

- Average Cost method in use. Periodic reviews made for slow-moving or obsolete stock.

B. FINANCIAL POLICIES AND PROCEDURES

1. Finance Department

a. Overview.

The Director of Administration and Finance, reporting to the General Manager of CINDE, has under his control all financial activities, including Treasury, Accounting, Investments and Procurement. The incumbent has been in the position for two and a half years. Personnel in charge of administrative and financial functions at the Program levels in CINDE have dotted-line responsibility to the Director of Administration and Finance.

The Internal Audit Department has been in place for a year and its manager reports to the Board of Directors. Audits and reviews are performed, for the most part on financial activities within CINDE but operational audits of key activities (ie. PIE's Program results reporting) are also made.

Annual certification audits are performed by Peat, Marwick, Mitchell & Co.. USAID also reviews CINDE's internal control and financial and operational activities periodically. As mentioned previously, no material problem areas were noted in the past year.

2. Policies and Procedures Manual

a. Contents

The principal areas covered by the manual are:

- Petty Cash.
- Check Issuance.
- Revenues.
- Fixed Assets.
- Investments.
- Payrolls.
- Bank Reconciliations.
- Travel Policy.
- Donations.
- AID Requirements.
- Financial Statements for Trust (Fideicomiso) operations.
- Inventory Control.
- Foreign Office Operations.

b. Internal Control

The Manual deals with both the philosophy of internal control (both in Finance and Administration) and its application in areas such as: Disbursement controls, payrolls, fixed assets, bank reconciliations, revenues and investments.

The objectives of these control procedures are to:

- Execute and record the operations of CINDE in accordance with management directives.
- Maintain financial records and statements in conformity with generally accepted accounting principles and maintain accurate records relating to the activities of the organization.
- Safeguard CINDE's assets by limiting access to authorized personnel and by providing periodic physical verifications of property and equipment.

c. Flowcharts

Detailed flowcharts (98 pages) are incorporated in the Manual detailing procedures related to all financial activities within CINDE, Responsibilities, document flow and cross-references to written procedures are included.

d. Forms

Copies of all internal CINDE forms are included with instructions for their use.

C. PERSONNEL POLICIES AND PROCEDURES

1. Overview

The Department of Human Resources was created six months ago in order to strengthen control over CINDE's most valuable resource, its staff. A Hay Group employee was contracted as department manager and a manual was prepared outlining the policies and procedures of the Department (issued in August, 1989). The Manager reports directly to CINDE's General Manager.

2. Policy and Procedures

a. Policy and Procedures Manual

The Manual details CINDE's policies regarding hiring, personnel development, salaries, benefits, security, accident prevention, equal opportunity philosophy and communications. Procedures included in the Manual cover recruitment of personnel, valuation and classification of jobs, salary ranges and increases and internal work rules. A merit system will be installed during 1990.

b. Overseas Promoters

A separate policy and procedure document exists detailing how overseas promoters are to be compensated, including bonus calculations, overseas fringe benefits, etc. ...

c. Department of Human Resources

All contracting, firings or other movements of personnel are coordinated by this department.

The General Manager signs all personnel actions and exercises direct supervision over the department manager.

Major changes in policy are approved by the Board of Directors (ie. local bonus plan).

III SUMMARY

CINDE's administrative and financial systems and related internal controls are sound and provide adequate assurance of the institution's ability to control its operations.

CINDE

5 YEAR PLAN

1989-1993

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SECTION I

EXECUTIVE SUMMARY

I. EXECUTIVE SUMMARY

This five year plan has the objective of setting the overall policy framework and direction of CINDE for the period 1989-1993.

This document traces the historical development of CINDE from its establishment in 1982. It goes on to look at CINDE as it is currently structured and operates with specific emphasis on its programs and activities and the function and historical evolution of its structure.

A detailed evaluation of CINDE was carried out in April 1988 to determine the overall effectiveness of CINDE. A summary of the findings of this evaluation is presented in this document, as they are relevant to the structuring of the five year plan. Two of the major recommendations made concern the structure of CINDE and its financing. On the structural side the evaluators recommended more centralized lines of authority coming down from the Managing Director, and the changing of the roles of the councils (Consejos) to advisory. The main recommendation on financing was that CINDE should make every effort to increase the level of self sustainability by seeking additional sources of funding - and carrying out a clear analysis of four potential areas.

- Charging for some of its services
- The Government of Costa Rica.
- USAID
- Other donors including the Costa Rican Private Sector

The evaluators also recommended that AID consider making an endowment as a means of ensuring that the activities carried out by CINDE would be maintained into the future.

The plan itself addresses four key areas:

- Planning and Policy Formulation
- Program Development
- Organization Structure
- Finance/Budgets

A. Planning and Policy Formulation:

The plan suggests a need to put in place a well defined planning process with built in factors to ensure that objectives/targets are clear; that there is a constant research of and dialogue with key agencies that could affect the achievement of CINDE target; that sectors are well identified and programs are well designed; that the organizational structure is appropriate to the job in hand and takes best advantage of the capabilities of staff and resources within CINDE; and that there are sufficient funds to ensure sustainability. This approach is presented in diagrammatic form in the body of the report.

Specific quantifiable targets have been set in CINDE's key results areas. These targets have been built up from the individual sectors within each of the programs. A summary of the targets is presented here for the institution as a whole.

1. Jobs Created					
	1989	1990	1991	1992	1993
CAAP+	2000	2500	3500	3000	3000
PIE*	8000	8200	8500	9000	9300
TOTAL	10000	10700	12000	12000	12300
CUM. TOTAL	10000	20700	32700	44700	56000

NOTE: + The employment figures for CAAP are showing a slight decrease in 1992 and 1993 due to limitation in the number of hectares that can be cultivated in certain products and improved mechanization.

NOTE: * The PIE employment figures are achievable in the last two years of the plan, on the assumption that infrastructure development keeps pace with investment promotion.

The total job creation envisaged over the five year period is 56,000 jobs.

2. Exports from CINDE Projects (\$ millions)					
	1989	1990	1991	1992	1993
CAAP	15	35	63	87	107
PIE/IMP.IND.	117	205	302	401	506
TOTAL	132	240	365	488	613

The total of exports generated in the period assumes that new foreign investments will reach full production within two years. The total exports generated in the five year period from CINDE projects will amount to \$613 million.

3. Persons Trained by the PROCAP Program.

	1989	1990	1991	1992	1993
Persons Trained	2440	2510	2670	2000	2000
Cum. Persons Trained	2440	4950	7620	9620	11620

The bulk of this training will take place in the in private productive sector.

B. Program Development:

The five year plan provides a summary of the major objectives and key strategies for each of CINDE's main programmes/divisions. Since each of CINDE's programs has developed or is in the process of developing its own detailed long term plan, this document does not reproduce the individual plans in great detail. The separate program documents are available for consultation should this be required.

C. Organizational Structure:

This plan goes on to review a number of organizational arrangements and recommends the immediate adoption of a new structure with centralized lines of authority, where the councils (consejos) adopt an advisory role and a direct line management structure is put in place. The direct export generating programs are combined under one technical or export development manager with a unification of the advisory councils (i.e. of PIE and CAAP) into one Export Development Council to give a primary focus to exports.

D. Finance-Budget:

The budget contained in this plan gives an overview of the total funding requirement of the organization.

The total funds required vary from \$9.7 million in 1989 to \$10.7 million in 1993.

The sources of funds include user fees, CINDE investments (PIC, BANEX/COFISA), fund-raising (including funds from the Costa Rican Private Sector), USAID (declining to zero by 1994) and Government of Costa Rica sources.

SECTION II

BACKGROUND

II. BACKGROUND

A. History of CINDE

The Costa Rican Coalition for Development Initiatives, CINDE, was established by a group of local businessmen in 1982 to serve as a catalyst for private sector participation in the planning of the economy, and to promote general improvements in the business environment, especially increases in non-traditional exports and new investment (foreign and local).

The need for a catalyst such as CINDE arose from the country's severe economic crisis, which led to deterioration in the standard of living and productive growth in 1980-1981. The private sector was experiencing considerable difficulties at the time, brought about by a decline of the Central American Common Market (CACM) and an overall deterioration of the economy which made it difficult to obtain credit, raw materials and other inputs needed for production, as well as much needed foreign exchange. The country's almost total dependence on a few traditional agricultural crops for export earnings demanded major structural changes in the economy; a new organization was needed to help motivate the private sector and educate the public sector as to the importance of the necessary structural changes and the potential of increased exports and investment to reestablish economic growth.

AID assistance to Costa Rica also increased dramatically in 1982, both as a result of the Caribbean Basin Initiative (CBI) as well as in recognition of the country's precarious economic position. USAID/Costa Rica (the Mission), as stated in its CBI implementation plan, sought to assist to reorient the economy from an import substitution bias brought about under the CACM, to an export-oriented economic strategy in which the private sector was to play a major role. To accomplish this task, which called for a vast program to bring about changes in the business environment to facilitate new investment and exports, the Mission recognized that it did not have the staff to directly channel resources to the private sector and to directly manage such a program. After months of discussions, a decision was made to create an umbrella organization directed by prominent Costa Ricans to promote private sector led growth. The concept was further discussed with the Costa Rican private and public sectors, and as a result of these discussions, CINDE became a reality in late 1982.

CINDE was formed as a non-profit association under Costa Rican law (Ley de Asociaciones). It has no religious, political or other affiliations, and maintains a tax-exempt status under this law.

During its first years of operations, CINDE was organized into four divisions or programs, as well as the central administration (Central CINDE) which provided overall direction, and a series of support services for programs (accounting, purchasing, maintenance, etc). These four programs included:

- 1) A unit to support and develop private voluntary organizations in Costa Rica (the PVO unit),

- 2) A Program for Exports and Investments (PIE),
- 3) A human resources and training program (PROCAP) and;
- 4) A Motivation and Communication program designed to undertake a series of dialogue and public awareness campaigns.

Over the years, the organization has undergone a series of changes which have led to the creation of new programs as well as the elimination of the PVO program from within CINDE (see organizational chart). Today CINDE is made up of the Central CINDE, three operating units, and an administrative and finance unit. The three operating units are PIE, PROCAP and the Private Agricultural and Agribusiness Council (CAAP) which became an operating division of CINDE in August of 1985. CINDE is currently in the process of creating a new Research and Policy Dialogue unit (Unidad de Investigacion y Dialogo) designed to strengthen private sector/public sector dialogue and bring about important changes in problem areas that affect the export oriented productive sector, as well as a unit to support the local export oriented industrial sector (Impulso Industrial). A fuller description of the CINDE programs is provided in the following sections.

B. CINDE's Divisions

1. Central CINDE

Central CINDE is responsible for providing centralized planning, programming and budgetary coordination for the organization as a whole, as well as support services in administrative and financial affairs. Its staff is made up of the Managing Director's office with a staff of 7, the administration and finance unit with a total of 16 employees, and the current Motivation and Communication unit, which has now been reduced to just two employees.

One responsibility of the Managing Director falls in the area of centralized planning and overall institutional coordination, a responsibility which had been made difficult by the fact that he had no direct line supervision over the individual program managers in PIE, CAAP and PROCAP (see organizational chart). The Managing Director does provide guidance and general coordination through monthly management meetings, which all program managers attend, and by participating in all of the individual program Consejo meetings. The Managing Director also plays an important role in the dialogue efforts that CINDE undertakes, and has a series of additional responsibilities that are not directly attributable to any one CINDE unit such as liaison with the Caribbean/Central American Action and FREDEPRICAP meetings.

All of the programs are supported by the Administration and Finance, unit which reports directly to the Managing Director. Currently, this unit provides the programs with financial and budgetary management, procurement services and personnel and payroll management.

2. The Program for Exports and Investments (PIE)

CINDE's efforts in the area of increasing non-traditional exports and investments in Costa Rica have always been a central part of the organization's overall focus. During CINDE's first year of operations, the PIE program was organized and staffed with a small number of professionals that had the ambitious task of promoting exports from, and investments into, Costa Rica. In its first two years (1983-1984), the program's external strategy focused on attending trade shows and seminars, and conducting trade missions to the United States and elsewhere. The program also hired a series of consultants to carry out some trade and investment promotion activities abroad. In Costa Rica the program received trade and investment missions from other countries and provided information to potential investors and exporters that came to CINDE seeking help.

These initial efforts yielded almost no new exports or investments. Late in 1984, it became evident that the approach which PIE was using to carry out its objectives was not working, and that a more defined strategy was necessary if the program was to be successful. This set about a series of changes that led to a complete refocusing of PIE's activities around an investment promotion effort with very specific goals and targets in the areas of job creation, dollar investment and foreign exchange earnings.

With the assistance of the Industrial Development Authority of Ireland (IDA), the program was completely restructured in late 1985, and its goals and strategy were defined in a five-year plan. The total concentration on investment promotion, although leaving a gap in the services that CINDE could offer in the area of export and trade promotion, proved to be a positive step for CINDE and PIE.

The results of the investment promotion effort have been dramatic. In the two-year period from January 1, 1986 through December 31, 1987, the program was instrumental in attracting over forty investors from the United States, Europe and Asia. These forty investors (mostly well established companies) are creating approximately 10,000 new direct jobs in Costa Rica, US\$47 million in new direct investment and US\$33 million in annual export sales.

3. The Private Agricultural and Agribusiness Council (CAAP)

The Private Agricultural and Agribusiness Council (CAAP) was formed in August of 1985 to address constraints in the agricultural sector and stimulate the development of non-traditional agricultural exports. Its goal is to increase non-traditional agricultural exports through domestic self-help programs and domestic and foreign investment in Costa Rica. The above objective is accomplished by: a) promoting policy reform with the various national institutions in the agricultural sector, b) promoting selected agricultural and agroindustrial export and investment projects, and c) managing a development fund for financing technical assistance and policy studies, feasibility studies, and institutional development and support in areas that will bring about quantifiable agriculture development.

CITIDI ORGANIZATIONAL CHART AS OF 6/81

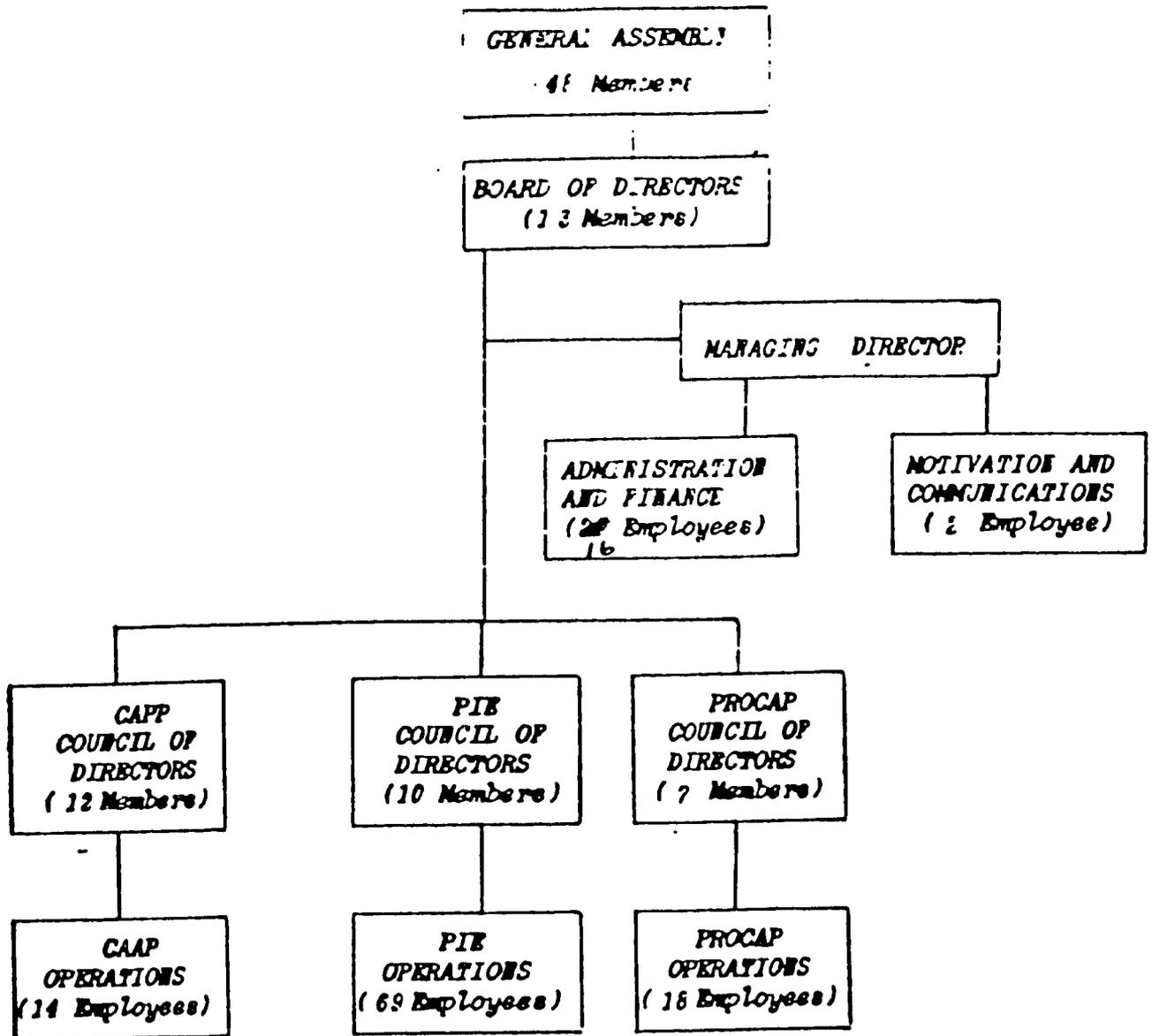


FIGURE II-1

In its first years of operations, the CAAP has become a spokesman for the non-traditional agricultural sector in Costa Rica, and it is filling a role that no other agency in Costa Rica is in a position to fill. It has proved to be an effective lobbying mechanism for the agricultural sector and has brought about important policy changes.

In the area of promoting selected agricultural projects, the CAAP currently has three technical assistance programs to support local growers and producers (strawberries, flowers and ornamental plants). While it is still too early to measure the success of these programs, initial efforts have strengthened the target sectors, and have been responsible for creating a dialogue among producers within each sector.

CAAP is now implementing a program to attract foreign agricultural investment to Costa Rica. It has begun by opening its own office in Miami, principally to collect market data, and has also begun to work with CINDE/PIE to have the PIE overseas promoters call on agricultural companies. While the investment effort is in its early stages, over the next year CAAP, working with PIE, will place a great deal of effort behind this program, which should begin to see tangible results in 1989.

4. Human Resources and Training Program (PROCAP)

CINDE's PROCAP division is made up of two different activities: those training activities funded in dollars under USAID Project No. 515-0212, in which PROCAP acts as the overall project coordinator; and PROCAP's own training activities funded with local currency. While the PROCAP/USAID project is aimed at high and upper middle level managers and technicians, CINDE's own training activities are aimed at technical and supervisory level personnel, and at sectors that are not targeted under the PROCAP/USAID project.

CINDE was selected to implement USAID/Costa Rica's training in the Private Sector Development Project because CINDE's objectives, image, and internal organization were seen as compatible with the goals of the training project. The training unit was actually formed in September of 1984 to implement the USAID project, and to develop its own capabilities in the area of human resources development.

PROCAP has been very successful in the implementation of both projects, having provided training programs and seminars for over 10,000 Costa Ricans. While PROCAP'S own funds for the training of lower level staff are beginning to run out, it has proposed that the USAID training project be broadened so that it can continue to carry out training activities in this important area, and has approached USAID for future-year local currency funding.

In addition to the training activities that it carries out, PROCAP is also successfully implementing the RTAC textbook distribution program on behalf of USAID, a program aimed at distributing in Costa Rica textbooks which have been translated into Spanish in Mexico.

5. Research and Policy Dialogue

One of CINDE's most successful activities has always been the work that has been carried out by the institution in the area of policy dialogue and the creation of awareness campaigns aimed at Costa Rican leaders as well as the general public. These efforts have always been oriented towards improving the overall business climate either directly by working to bring about new legislation, or indirectly by increasing public awareness on the need for new exports and investment. In the past, CINDE has provided key leadership in the passage of the export incentives law, the free zone law, changes in the monetary law and the establishment of the national investment council, all of which have contributed significantly to the business climate in Costa Rica.

The different efforts that CINDE carried out in these areas were formally delegated to a unit which was called Motivation and Communication (MC) in 1984. After the initial successful efforts aimed at direct lobbying for overall improvement in the business climate, the program focused on a series of public awareness campaigns which stressed the importance of new export development. Later a specific campaign which stressed the importance of foreign investment in Costa Rica was implemented in direct support of PIE's efforts.

In 1987, the CINDE Board of Directors decided that the program had met its objectives, and the program was reduced to just two persons who handle press relations. However, in early 1988, as part of a strategic planning process that has been going on for the last nine months, CINDE decided to restructure the program into a Research and Policy Dialogue Unit. This unit will work in two main areas which are: a) problems and bottlenecks that directly affect CINDE's programs (such as customs problems that affect the overall export and investment promotion programs); and (b) problems at a national level which, while they may not directly affect one of CINDE's programs, do affect the overall development of the country (such as the national banking system). The new program, which is currently being staffed, should be operating by September of 1988.

6. Industrial Development Program

The Industrial Development Program, (IDP or Impulso Industrial) CINDE's newest program, is being created to fill the void that was left when the PIE program decided to focus on foreign investment promotion alone. It has been designed to assist local exporters in the plastics, metalworking and possibly apparel sectors. Trade assistance will also be provided to companies outside of the three initial priority sectors, though these will not be given complete technical assistance.

The project's goal is to increase the productive capacity of selected companies in the three sectors, through a complete technical assistance package (marketing, administration, production, contracting, finance, etc.) which will result in an increase in their capacity to export their own products or to subcontract production from overseas companies.

The program, which was developed by PIE staff, has been approved by the CINDE Board of Directors, and has been approved in principle by USAID/Costa Rica for funding. It is awaiting probable approval by the AID-GOCR Bipartite Commission.

C. Organizational Aspects

The CINDE organizational chart, as of May of 1988, is shown in Figure II-1 above. The organization is governed by a General Assembly, which in turn elects a Board of Directors which oversee the activities of CINDE and its programs. The Board of Directors selects the Managing Director, as well as the members of the three program Councils of Directors (or Consejos). The Managing Director has not had line authority over the three main CINDE programs, but rather has exercised his influence over these programs by participating on the Consejos, and also by having a voice, but no vote, at the Board of Directors.

1. The General Assembly

The General Assembly is the equivalent of a governing board, and is currently made up of 48 members from different sectors of the economy. These individuals were chosen by the CINDE Board (with input from AID). Appointments to the General Assembly are permanent.

The General Assembly meets once a year to elect new Directors and is also called upon by the CINDE organization periodically for information and discussion.

The General Assembly was added to the CINDE structure in 1984, because it was felt that there was a need to broaden the "membership" base of CINDE, without necessarily increasing the number of people on the Board of Directors. The General Assembly did not have an effective role before 1987, when it was agreed that assembly members would assume a key role in CINDE's new policy dialogue efforts.

2. The Board of Directors

The Board of Directors, which is chosen from the members of the General Assembly, is currently composed of ten members who meet every two weeks to discuss programmatic, organizational and policy matters. All are influential businessmen from the different sectors in the economy (industry, commerce, agriculture and services) and contribute a significant amount of unpaid time to the organization. In addition to their responsibilities as Board members, these individuals also play a major role in CINDE's policy dialogue.

PLANNING PROCESS

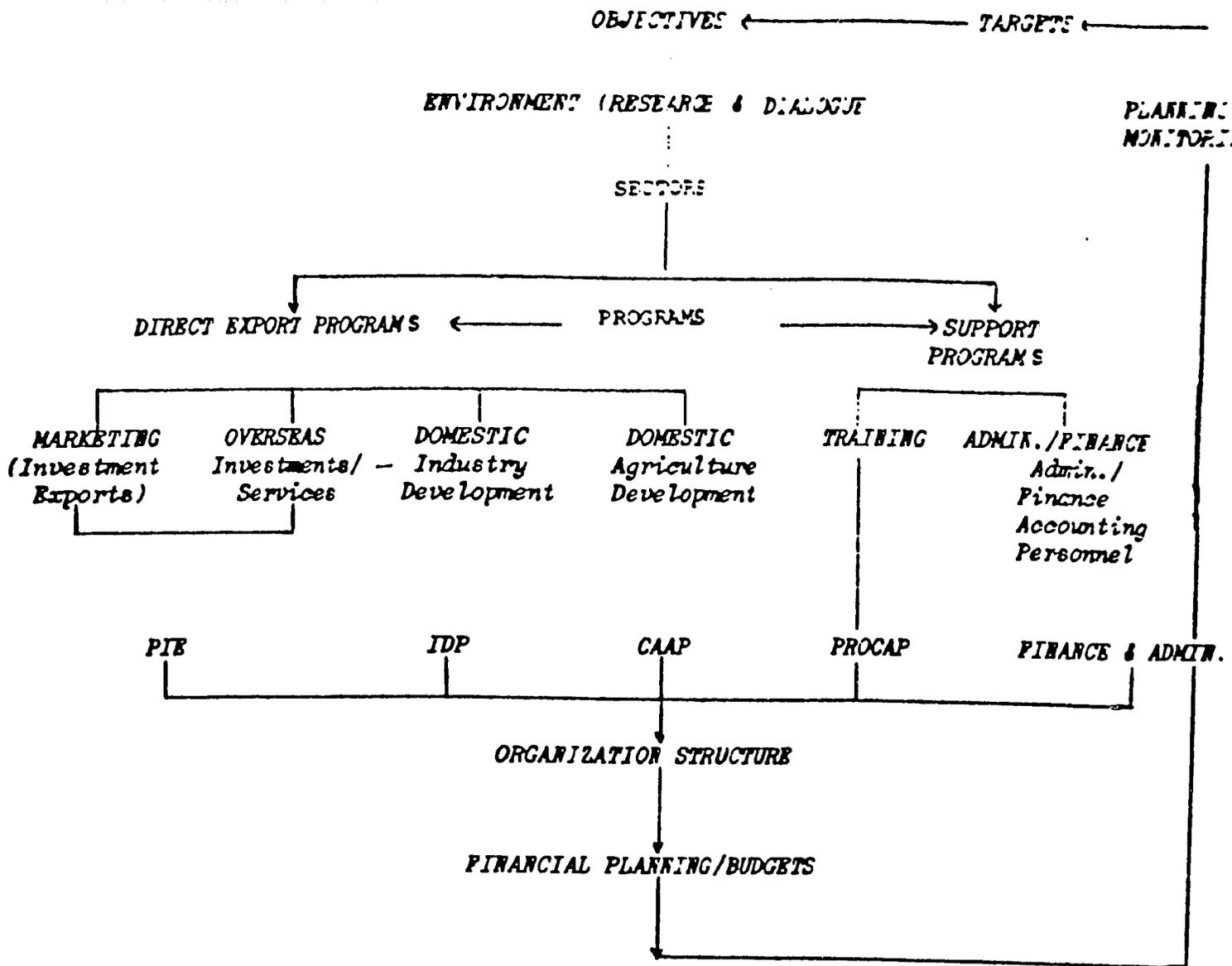


FIGURE III-1

3. The Managing Director

The Managing Director, who is named by the Board of Directors, serves as an advisor to the Board as well as the overall coordinator of CINDE's programs and support activities. His direct management responsibilities are presently limited to the Administration and Finance Unit and the Policy Dialogue Unit (Motivation and Communication).

While the Managing Director is also supposed to play a role in coordinating the CINDE programs themselves, he has not had direct line authority over the program managers, and therefore is limited in the influence that he can bring to bear over these programs. This has led to a series of problems which have affected the institution, such as unnecessary overlapping of efforts, and certain inefficiencies in decision making and overall work patterns.

4. The Council of Directors

Each of the three main programs reports directly to its own Council of Directors or "Consejo". Each Consejo has 7 to 12 members which are selected by the Board of Directors. The Consejos provide overall guidance to their programs in many areas such as program management, budgets, and approval of specific contracts which exceed a predetermined level. The CAAP Consejo has to date been most closely involved in management of its program. The creation of the Consejos has been positive in many aspects, but at the same time it has brought about a series of problems related to overall authority over the institution, and lack of coordination among the programs.

5. Historical Background to CINDE's Structure

Prior to the adoption of the current structure in 1985 the organization had already been through a series of changes that were brought about by the rapid growth of the institution, and specific needs of individual programs. Three basic organizational structures have been used in CINDE, and are described in this section.

When the organization first was established there was a small staff which supported the activities of the Managing Director, who reported to the Board of Directors. As programs were created, these were organized as operating units that reported to the Managing Director, who in turn was a full member of the Board of Directors. The organization was therefore very traditional with clear lines of authority.

As the CINDE program continued to grow, the Managing Director was responsible for several key functions directly, such as the Motivation and Communication effort (with the help of a program manager) and overall CINDE relations with other organizations and the Government. The Managing Director was also responsible for the activities of the programs which were growing quickly, and therefore the Board of Directors decided to bring in a General Manager to whom the key programs would report directly, and

who would in turn report to the Managing Director. This allowed the Managing Director more time for general CINDE relations and lobbying activities, etc. The General Manager was therefore acting as the full time program coordinator, overseeing the activities of all of the key programs.

The above structure did have some problems in that the roles were never clearly defined. The different styles of management and different ideas as to how the programs should be directed brought about several problems. Consequently, the Board of Directors made the decision in early 1985 to move the Managing Director out of the direct line of authority and place him in a staff position reporting to the Board, in effect reducing his control over the programs. On the other hand, the General Manager's position was clarified, and he continued to play the role of overall manager of the institution, with direct line authority over the program managers.

In August of 1985, however, a decision was made to create the CAAP program as a part of CINDE. This caused some problems because USAID had initiated the CAAP project with a group of agriculturalists who felt that the CINDE Board did not have the experience to manage an agricultural program such as CAAP. The concept of the Consejos was born as a compromise position, which allowed the CAAP to enter the CINDE organization with its own agricultural board. At the same time the CINDE Board was expanded to allow CAAP founders to become members of the Board, and therefore the Consejos would be made up of enough Board members to ensure adequate coordination among the programs. As a result of this change, however, the General Manager's position was eliminated, leaving the structure which was still in existence as of May of 1988.

D. CINDE Evaluation

A detailed evaluation of CINDE was undertaken in April 1988 to determine its overall effectiveness. The evaluation was broken down by the four principal functional areas of CINDE (i.e. Central CINDE, PIE, CAAP and PROCAP). A summary of the findings of this evaluation are presented here as they are relevant to the structuring of this five year plan.

1. Central CINDE

The recommendations made in respect to Central Cinde were as follows:

- The Mission should continue the initiative of encouraging the preparation of a five-year plan as part of what could be called a Project Paper-type exercise.
- The Industrial Development Programme should be approved and funded at the earliest possible date.

- Central CINDE, together with its programs, should develop criteria for the charging of fees for a selected number of its services.
- The Mission should consider the establishment of a CINDE endowment dedicated to selected program activities, or to the organization as a whole.
- The CINDE organization should be restructured to allow for centralized lines of responsibility, an increased importance for the Administration and Finance Division, and a clearly defined division of responsibilities and authority between the Board of Directors and the Program Councils.
- Budgetary negotiations and oversight should come under the supervision of Central CINDE where more uniform policies could be followed.
- A study should be conducted involving the USAID Controller's Office, the various USAID Project Managers dealing with CINDE, and select CINDE staff to come up with a coordinated plan to reduce the paperwork requirements involved in the funding process, as well as the time required at each step.
- A short-term personal services contractor should be hired as an advisor to the newly elevated Manager for Administration and Finance.
- AID should revert to the practice of trimestral advances based on budgeted amounts and the past trimester's expenditures.
- CINDE should adopt an organizational structure giving the Managing Director direct authority in financial matters over the Program Managers.
- AID should approve the purchase of an adequate computer system for the management of CINDE's financial and administrative records.
- CINDE should maintain its current focused approach to implementing its objectives and policies.
- The Mission should designate no more than three staff members to directly interact with CINDE: one for PROCAP, one for CAAP and one to deal with Central CINDE on administrative/financial matters.

2. FIE PROGRAM

The consultants noted that FIE had developed and implemented a highly effective investment promotion program.

For the period 1986-1987 the program had assisted in the attraction of investment having significant development impact, including approximately:

- a) 10,000 direct jobs,
- b) \$47 million in direct investment, and
- c) \$33 million in annual export sales.

These accomplishments have made FIE one of the most cost-effective investment promotion programs in the world (measured by promotional cost per job created).

The major factors accounting for these achievements can be found in three general areas: a) well defined strategy and objectives, b) well targeted and aggressive promotional capability and, c) well organized and efficient institutional capability.

The consultants summarized their recommendations as follows:

- Develop a strategy for securing funding after 1989, from the following sources:

- a) A.I.D.
- b) Costa Rican Government
- c) Other donor agencies, and
- d) Revenue-generating projects or services (managing an industrial park, providing technical assistance).

- Support the new industrial development program and expansion of the overseas office network, but also expand the management-by-objective criteria and reporting system used to judge the performance of personnel and the program in general.

- Try to develop an autonomous CINDE and FIE organization within the context of the proposal for restructuring the country's investment and export promotion presented by the Ministry of Foreign Trade.

- Maintain the existing incentive system and salary structure in FIE.

- Establish the most cost-effective relationship among FIE, CAAP and Central CINDE.
- Strengthen Central CINDE to provide effective lobbying and fund-raising services in addition to the existing administrative assistance it provides to FIE.

3. PROCAP PROGRAM

The evaluation endorsed the program as an effective and very well-run project, and PROCAP as an exceptionally well managed organization. The report went on to make a number of recommendations as follows:

- More attention should be paid to future financial sustainability, achieved through substantial increases in tuition fees, accompanied by revisions in accounting systems providing information on the true costs of training.
- A.I.D. should provide PROCAP with an endowment to cover those costs not covered by income, particularly those generated by public service activities that do not generate income, such as private sector seminars designed to elicit more effective government support.
- The overall management structure should be developed further, particularly at the level of back up to the program manager, specifically by the appointment of a deputy manager. Strengthening of management in cost accounting is also mentioned.
- A further effort should be made to quantify the impact of the Program on exports and productivity.
- Instructors should be required to make time available to individual trainees after the course.
- A requirement should be imposed on trainees to develop work plans at the end of courses, to help ensure application of what they have learned.
- Simultaneous translators should be required to read course related materials beforehand to improve their mastery of technical vocabulary.

4. CAAP PROGRAM

The CAAP evaluation team made the following recommendations:

- Organizational Structure - The CAAP's internal structure currently serves the organization well, although expanded programs in the future might cause this to change. The reporting relationship between CAAP and Central CINDE, its Managing Director and the CINDE Board of Directors is often strained due to a lack of clearly defined responsibilities.
- The CAAP should maintain its current internal structure with minor organizational and reporting changes. Some line and staff functions could be made more operational in view of recent program refocusing and the opening of an office in Miami. A clear division of responsibilities between the decision making bodies (especially the CINDE Board and the CAAP Council) is also recommended.
- The criteria for the selection of programs should be clearly defined with a written procedure. The export-related private sector should assist in developing the selection criteria. Specific commodity programs should evolve around building quantifiable data systems and other analytic information sources for each selected commodity. If proposed new programs are not backed by quantifiable data regarding investments and exports, serious consideration should be given to rejecting them.
- A sophisticated target investor list should be developed by CAAP staff with the help of outside consultants. CAAP should also include market analysis information for Europe and the Orient. Scheduled biweekly meetings should take place between CAAP, PIE and PROCAP regarding investment opportunities and on-going operations. Staff operational functions should be discussed along with program development.

SECTION III

PLAN DESCRIPTION - Policy Level

Resources for market analysis and commodity selection and development should be greatly expanded to include

- An in-house technical library
- A complete market information data base (to include Pronet)
- USDA Market Reports by product
- Trade association contacts
- USDA Standards of Identity
- Customs Regulations
- APHIS Standards
- Standards Procedures by Industry (e.g. tomato processing)
- Trade Reference Resources (The Blue Book, The Red Book, The Packer)

- USAID/Costa Rica should streamline its budget and disbursement approval process. Attempts should be made to finalize approval within thirty days of receiving the budget or disbursement request from CAAP. The following additional changes in the budgetary/disbursement approval process should also be considered:

- Multi-year funding for establishment of programs;
- Change to a July/June fiscal year to coincide with the agricultural cycle, and to meet market window opportunities in the U.S., Canada and Europe;
- Determine mechanisms to accelerate Mission approvals of CAAP program proposals;
- Begin preparation of the annual budget earlier;
- More frequent presentations of project status following the format of a time-phased action plan;
- The CAAP Manager should be given disbursement approval authority up to US\$20,000 as soon as possible;

- The Mission and CAAP should develop specific criteria for program selection and development. Many of the differences of opinion between Mission and CAAP staff have resulted from the lack of clear guidelines for commodity selection.

- Additionally, the Mission should designate one staff member to act as liaison between itself and CAAP.

III. PLAN DESCRIPTION - POLICY LEVEL

A. Purpose and Objectives of CINDE.

As mentioned in the introduction, when CINDE was founded in late 1982, its general objectives were:

- the stimulation of non-traditional exports;
- the encouragement of private sector investment in areas related to non-traditional exports; and
- the stimulation of the productive capacity of the country.

A central focus of the present planning effort is to review CINDE's purpose and objectives, and it has benefited from the participation of all levels within the organization. This process has led to the conclusion that the general purpose of the institution as stated in the original bylaws is still valid. On the other hand, as a result of this review, the following restatement of CINDE's objectives is recommended:

- Increase exports in the industrial, agricultural and service sectors, either through the improvement of existing operations, or through new investment, both national and foreign;
- Ensure that the necessary human resources are available in sufficient supply and quality to meet the needs of existing or new enterprises in the non-traditional sectors;
- Promote adequate regional development in Costa Rica in non-traditional sectors;
- Promote improvements in the general business climate, particularly as it affects the non-traditional sectors, by promoting a greater policy dialogue with the public sector and with other private groups; and
- Achieve greater financial self-sufficiency for CINDE and its programs by 1993.

B. Institutional Targets

CINDE's institutional targets are derived from the individual program targets. They are outlined as follows:

1. Jobs Created

	1989	1990	1991	1992	1993
CAAP	2000	2500	3500	3000	3000
PIE +	8000	8200	8500	9000	9300
TOTAL *	10000	10700	12000	12000	12300
CUM TOTAL	10000	20700	32700	44700	56000

NOTE: + The employment figures for CAAP are showing a slight decrease in 1992 and 1993, due to a limitation in the number of hectares that can be cultivated in certain products and improve mechanization.

NOTE: * The PIE employment figures are achievable on the last two years of the plan, on the assumption that infrastructure development keeps pace with investment promotion.

The total job creation envisaged over the five year period is 56,000.

2. Exports from CINDE Projects
(\$ millions)

	1989	1990	1991	1992	1993
CAAP	15	35	63	87	107
PIE/IMPULSO I.	117	205	302	401	506
TOTAL	132	240	365	488	613

The total of exports generated in the period assumes that new foreign investment will reach full production within two years. The total exports generated in the five-year period from CINDE projects would amount to \$613 million.

3. Persons trained by the PROCAP Program.

	1989	1990	1991	1992	1993
Persons Trained	2440	2510	2670	2000	2000
Cum. Persons Trained	2440	4950	7620	9620	11620

The bulk of this training will take place in the private productive sector.

C. Planning-Monitoring

The recent evaluation suggested that a well-defined planning process be developed within CINDE and that this five-year plan could be the initiation of action in that process.

Below is outlined a planning process which is particularly suited to the kind of development activity that CINDE is involved in (See figure III-1).

The planning process should start with a definition of "OBJECTIVES" as this gives the guiding light to all of the organization's planning and implementation. This must be carried out at highest level in CINDE, i.e. at the level of the Board of Directors.

CITIDI ORGANIZATIONAL CAPS: RECOMMENDED BY 5/81 EVALUATION

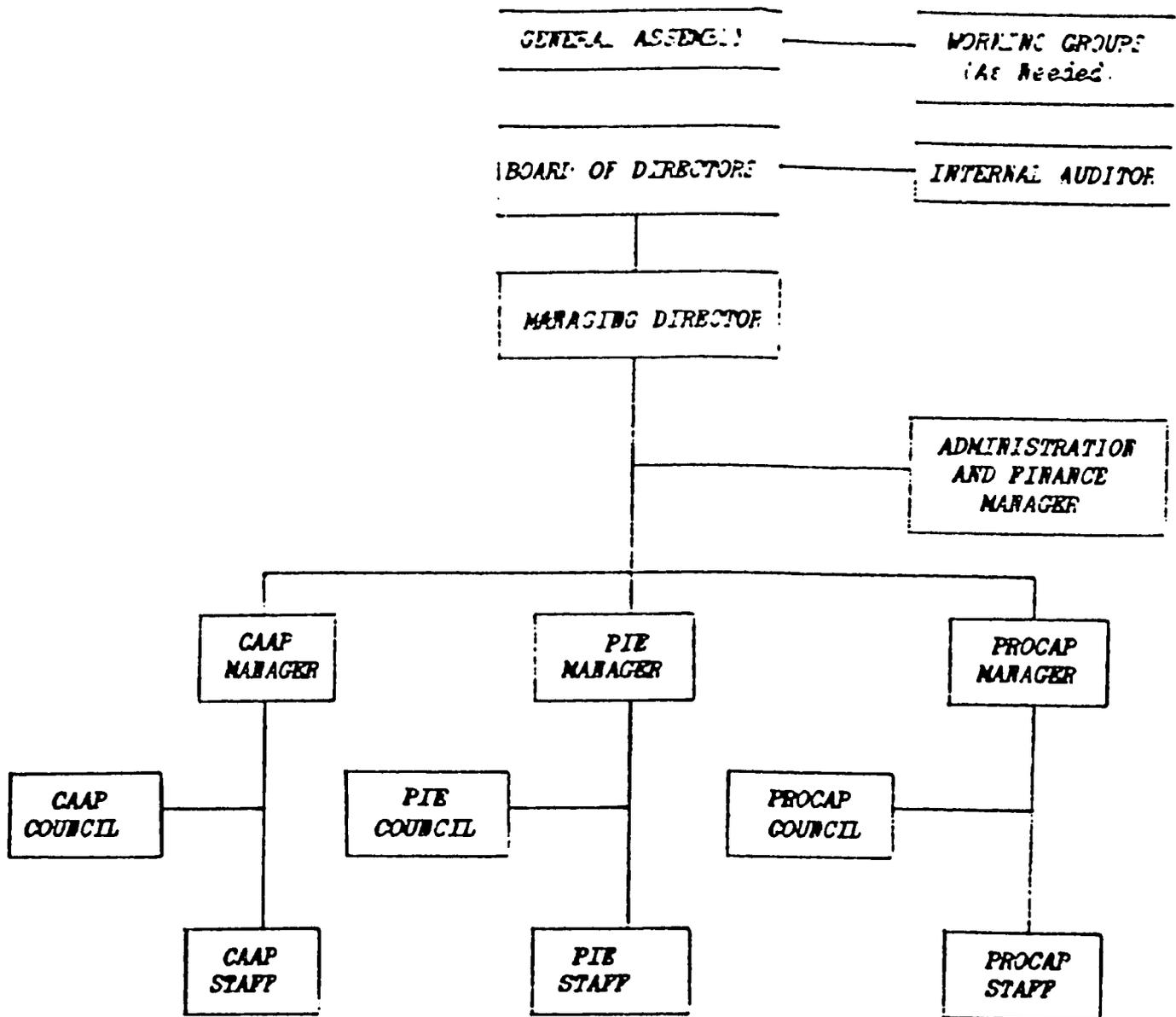


FIGURE II-2

The environment within which the organization operates must be clearly defined and the factors in that environment which could influence the achievement of its objectives clearly researched. Once these key factors are identified, they become the object of the lobbying effort.

A special commission of the Board of Directors has already identified policy areas for early attention, e.g. incentives, available land/building space (regional development), customs, transportation and drug control. Influencing other organizations' objectives and policies clearly calls for action by the highest levels within CINDE.

Before defining its programs, CINDE must establish its priority sectors within the main divisions of the productive sector (i.e. industry, agriculture and services). On these are based the programs which will achieve CINDE's targets. Such programs can be grouped under two broad headings. The first includes those that directly lead to export generation such as investment and trade promotion activities. The second are support programs that relate to the inputs to exporting companies, such as fixed assets, labor, capital and materials. CINDE is operating on the basis that there are sufficient private sector companies providing fixed assets (Free Zones, Industrial Parks, etc.). The ownership of specific land or buildings may be a future consideration for regional development, but so long as the private business sector is prepared to do this in all of the places of interest to CINDE direct involvement seems unnecessary. The same applies to the provision of finance and and materials.

There has, however, been a serious weakness in the supply of trained labor, particularly in certain areas, such as technicians. The training area is therefore considered as a support activity for direct involvement.

In addition, the organization itself requires internal support services in training, personnel, administration, finance and accounting.

Having defined the areas, (Direct and Support Program activities), the lacing of these into a cohesive organization structure is another critical element in the planning process.

All of the units within the organization must have well identified budgets set up for the planning period and the corresponding finance must be secured.

Finally, well-defined targets in line with the organizational objectives must be set and these targets must be quantifiable where at all possible. A very specific monitoring system should be put in place to regularly review the achievement of these targets or recommend a variation in them if appropriate.

Over the next few years, CINDE must further focus its efforts and take greater responsibility in the planning of its own future, given its available resources and the needs of the country. This planning should never be viewed as set in concrete, but rather as a basis for future activity which is constantly in review.

To accomplish this planning activity, the Managing Director will be supported by a small staff (one executive and a secretary) who will be responsible for

- (1) constantly monitoring the institution's results against targets and the long term plan, and
- (2) analyzing new opportunities and recommending possible new programs or actions for CINDE in the future.

D. Fund Raising

Fund-raising is also critical for the sustainability of CINDE. In the past, CINDE has made sporadic efforts to raise funds from other (non-AID) sources, but with little success. Perhaps the greatest mistake in CINDE's past fund-raising efforts has been that no one person or unit has been held accountable for the fund raising activities. This five year plan corrects the situation by dedicating one person to assist the Managing Director in this activity.

Today CINDE has a track record of successful programs, and should be able to undertake a fund raising activity with some success if the activity is well planned and executed. It is expected that others in the organization, particularly at the board level, will also participate.

The fund raising activity will be discussed further in section VI.

E. Business Environment/Research and Policy Dialogue

This has been an area of constant focus for CINDE, as discussed earlier. The Board of Directors has been instrumental in achieving many changes in the past, particularly in new legislation and government services, like customs.

Much remains to be done in this area. A working group was recently set up by the Board of Director to identify the most critical factors.

The final report of this working group recommended the following areas for attention:

- Industrial Infrastructure: Increase the supply of industrial buildings and industrial parks/free zones.
- Incentives: A restructuring of Costa Rica's export and investment incentives.
- Customs: Improvements to the existing systems.

SECTION IV

PLAN DESCRIPTION - Programs

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- **Illegal Drugs:** The need to protect Costa Rica's exports from the negative effects of drug smuggling through the country.
- **Transportation:** Improvements to the existing system as it affects Costa Rica's exports.
- **Costa Rica's Image Abroad:** A review and specific actions to improve it if necessary.
- **Vocational training:** A future area of growth and opportunity for PROCAP and where there is currently a void.

The Research and Policy Dialogue unit has been developed to ensure that there is adequate follow up in tackling these areas.

This unit (a manager, two staff, and a secretary) will serve as a technical secretariat for CINDE's policy reform efforts, providing (1) studies and other analytic back-up which may be necessary, and (2) coordination in policy dialogue, which will be carried out in each area by working groups drawn from CINDE's Assembly, Board, and staff, as well as appropriate representatives of other private sector groups.

IV. Plan Description - Programs

A. Direct Export Programs

1. PIE.

We have already discussed the results achieved by the PIE Program. Before the end of 1986, PIE will already have exceeded the total targets set in its 1986-1990 five year plan. In the following years PIE will consolidate its marketing activities, fine tune its new programs in Europe and the Far East, and seek new opportunities in additional sectors.

a) Priority Sectors:

After the initiation of the PIE Five Year Investment Promotion Plan in January of 1986, eight priority sectors had been identified by an initial IDA sector study:

- Food / Agro Products
- Textiles / Apparel / Leather
- Paper / Wood Products
- Chemicals / Health Care Products

- Metal / Mechanical Engineering
- Electronics
- Consumer / Leisure Products

During the last two and a half years, this list has been fine-tuned, taking advantage of seven hundred investment itineraries conducted so far. Interviews, briefings and debriefings have contributed a wealth of information as to the direction in which PIE investment promotion activities should be moving. When we analyze the program results during 1986, a FIRST PHASE is evident with the Textile/Apparel Sector accounting for 83% of the total investment. This is normally one of the first to be developed in most developing countries. International companies can transfer assembly operations with relative ease compared with higher technology or higher value added manufacturing operations.

The SECOND PHASE of PIE's investment promotion activities began in 1987 when the Textile and Apparel Sector declined to 56% of the program results while other sectors showed notable growth. These sectors are much more desirable since they produce a greater value added for the country and are more capital and technology intensive. For example, in this period Electronics represented 12% of the total, while Agriculture represented 14% of the program results. The 1988 results have shown a continuation of this process.

When we analyze future priorities for PIE's investment promotion activities, new sectors arise with tremendous potential for Costa Rica in the next 5 years. The Service Sector stands out as a major area which needs to be developed, particularly in the following areas:

- Tourism
- Data Entry
- Computer Assisted Design (CAD/CAM)
- Software Design and Modification
- Medical Services
- Translation Services
- Engineering and Design

Processing information in offshore facilities has firmly established itself as a profitable way to do business. As computers in the workplace become more and more common, labor intensive data entry and data processing operations are moving to more affordable locations. Whether this is done directly by establishing overseas production centers or by contracting

arrangements, the benefits are clearly recognized. With a starting wage of about US\$ 133.00/month for data entry operators, and affordable salaries for skilled programming, engineering and managerial staff, Costa Rica becomes an interesting cost-saving location. Performance can be equal to or superior to U.S standards and, in contrast to the high turnover and absenteeism rates prevalent in the U.S, Costa Ricans view these jobs as highly desirable, and protect them. The attractive labor costs also allow for intensive levels of quality control.

The software services sector involves software development, programming and customization to client specifications. An excellent telecommunications network enables direct low-cost communication between clients and their offshore programmers in Costa Rica. The growing number of computer science graduates can provide the skilled labor force required.

The demand is increasing for Spanish/English translation services. The large local bilingual labor pool in Costa Rica allows for cost-efficient translation outside the U.S.

2. INDUSTRIAL DEVELOPMENT PROGRAM

This program was already discussed on in the background section of this report. As it has not commenced operations, a change of focus is not an issue here. A number of further comments are being added here to expand on the philosophy behind the program.

In late 1985, PIE decided to focus exclusively on investment promotion, dropping most activities related to export or trade promotion. While the focus on investment promotion was appropriate at the time, and the program has been highly successful, the need for trade or export promotion has always been recognized. Approximately fifteen months ago, PIE staff began developing a program in this area.

It became clear in the early stages of this development that a straight marketing activity, such as the Chicago Association of Commerce and Industry or Banex Trading Company had carried out in the past, would not be enough. This is because a marketing activity which does nothing to develop the local productive base may identify new channels for existing products, but will not help potential exporters who do not currently have an exportable product. Experience has shown that a marketing activity alone does very little to increase Costa Rica's export base.

The Industrial Development Program has been designed to assist local exporters, because PIE's experience has demonstrated that long lasting trade activities, which often take the form of a subcontracting arrangement at first, will not develop without assistance to local companies in a wide range of areas.

The program will assist local companies in identifying trade opportunities, and will provide these companies with a full range of technical assistance, if needed, to help them comply with subcontracts in a way which will create a positive long-term relationship. It is anticipated that these companies will eventually continue to export without the direct support of the Industrial Development Program. The program's specific targets, which will be used to monitor progress, have been included within the export generation targets of PIZ in section III-B. As has been pointed out earlier this program is fully approved and will shortly have its funds programmed by the Bipartite Commission.

3. CAAP PROGRAM

a) Strategy

In its five year strategy CAAP will continue to focus its attention in the areas outlined within its last year's operating plan:

- i) Policy Dialogue with other agencies
- ii) Product Development
- iii) Implementation of an Agricultural Export and Investment Promotion Strategy.

b) Policy Dialogue with other Agencies

Since its creation in 1985 CAAP has been active in persuading other agencies to assist in correcting bottlenecks or improving the performance of institutions or projects in the agricultural sector.

Examples of these efforts include resolving the air cargo service for perishable exports, and working with the flower producers to avoid countervailing duties. Other initiatives include studies of reforestation, agricultural credit and the cattle industry. A number of legal issues to be addressed include laws which effect the sugar industry, the Consejo Nacional de Produccion, rice program policy, transportation, agricultural cooperatives, export incentives, land tenure and agricultural protectionism.

c) Product Development

The general guidelines for the selection of products have been developed and CAAP is now in the process of implementing development programs/trials for specific crops.

Strawberries, flowers, ornamental plants, industrial tomatoes, and cacao are discussed below. An additional group of products has been approved by the consejo for immediate development: melons, asparagus, black pepper, passion fruit, vanilla, soursop, and macadamia. Others within a list of 21 products presented by IRI Research Institute, Inc. are being considered.

i) Strawberries

The following issues will be tackled in this sector:

- Adjustment of the production to the peak market, October to February;
- Increase in productivity;
- Increase in the proportion of quality exportable fruit;
- Improving harvesting and post harvest handling;
- Improving air transportation; and
- Investigating the opportunity for sales alternatives outside the U.S. peak period.

ii) Flowers

The following issues are critical for the future development of the cut flower industry:

- Orienting local producers to specialize in niche markets and offer services that the larger Colombian companies are not willing to provide;
- Educating the local producer on the channels of distribution in the U.S., (seasonality, competition, etc.);
- Proper design of production facilities and infrastructure, and the use of appropriate technology to improve price competitiveness;
- Harvesting, packaging and handling, which are very important in the case of flowers; areas for consideration here include efficiency of labor handling, precooling systems, proper stacking, cooling in storage;
- Air freight, including availability of space, adequate flight schedules, costs, export inspection services.

iii) Ornamental Plants

Costa Rica is blessed with natural conditions that permit the production of most types of ornamental plants. A number of areas, however, merit special attention:

- Educating local producers in the market requirements of the U.S., Europe and Japan: CAAP'S role will be geared towards identification and encouraging of custom production of plant materials for nurseries in these countries;
- Assisting growers to maximize production per hectare coupled with improved technologies, seed stock and production systems;
- Assisting growers in the selection of varieties, with particular attention to yields;
- Defining variety-specific infrastructure needs;
- Providing support in handling and transportation (including sea transportation).

iv) Industrial Tomatoes

Costa Rica imports enormous quantities of tomato paste products. The country can become self sufficient in the production of industrial tomatoes if the right technology can be adopted.

This project is receiving technical assistance from Israel under an Israel - AID agreement. Important activities include:

- Analyze production data compiled to date;
- Continue field trials;
- Lower costs per hectarea;
- Recommend minimum prices for growers, taking into account production and transportation costs;
- Determine cost-appropriate technologies.

v) Cacao

Cacao could have a strong, immediate impact on exports. New technology using hybrids seems to be a solution to previous disease problems.

The following programs were defined as being necessary:

- Investigation of per-hectarea yields of plantations utilizing hybrids;
- Encouragement of new planting and grafting techniques successful in other countries;
- Combination of cacao plantation with other crops such as plantains and coconuts.

d) Agriculture Investment and Export Promotion

Before undertaking any investment and export promotion, the initial focus of CAAP was the identification of non-traditional agricultural products which had export potential. CAAP's work centered on product and market identification and the strengthening of local production to meet requirements of foreign markets. The first major effort was to commission a study to identify 21 NTA products from a market perspective. The second major effort was to establish technical assistance programs to improve the production of products which already had a local production base, including strawberries, flowers and ornamental plants.

A number of areas are key to a successful promotional effort of agricultural products:

- Feedback of market and product information,
- Product profiles as an instrument in investment promotion,
- Presence in the market place, and
- A well defined selling system.

CINDE has decided to undertake investment and trade promotion in agriculture; PIE and CAAP are jointly involved in this effort. The adoption of the new structure recommended in this plan will greatly help to coordinate this effort.

e) Other Programs

CAAP plans a number of other actions:

- Developing further the working relationship with the National Chamber of Agriculture and Agroindustry,
- Post harvest insect control in papaya and mango (substitution of EDB by hot water dip).
- Assistance to the Soil Chemistry and Fertility Laboratory of the A.I.C., and
- Diffusion of technology with University of Costa Rica.

B. SUPPORT SERVICES

1. PROCAP - FUTURE STRATEGY

a) Main Activities.

Studies by CINDE and other institutions have shown that projected demand in training at the technician and executive levels exceeds the supply, resulting in bottlenecks in specific industries. This situation could slow new investments and exports.

PROCAP'S response to this problem has been the following:

- The D.A.funded 515-0212 Project, which attends to the training needs of the management of non-traditional exporting enterprises, will run until 1990.
- The colon-funded PROCAP-CINDE program has been dedicated to solving the bottlenecks in the supply of middle level technicians and supervisors, especially in those industries where the attraction of investment has been most successful.

PROCAP'S proposal for the coming years covers the following points:

- Continue to service the demand for training in those non-traditional export sectors which CINDE has selected to service as priorities in 1988.
- Analyze through sectoral studies the training needs of non-traditional exporting companies, compared to the capacity of the public and private institutions of the country to provide for that demand in the coming five years.

- Prepare a five-year plan identifying which training needs can be met through existing institutions, and which needs would better be met through direct PROCAP programs.
- Implement the above plan through dialogue with other training institutions and through direct PROCAP training programs (within the limitation of budget resources) .

The budget anticipates completion of the studies between 1988 and 1989, and a transferring in stages of the activities of AID project 515-0212 to the program PROCAP-CINDE between 1988 and 1990. By 1991 it is foreseen that all the activities will be funded under the PROCAP-CINDE Program.

In the future PROCAP will also have a direct responsibility for internal staff training within CINDE. There is a need within the organization to standardize the approach to training and to ensure that each division is getting adequate training for its people. This also implies the preparation of proper training manuals for the different categories of staff.

The effect of this will also be to ensure that procedures are carefully documented and that the acquired experience of the organization is less affected by that staff movement. Some of the pressures in the other Divisions and Programs will also be relieved, to allow them to concentrate on their own specific expertise.

b) Other Possible PROCAP Activities

The recently completed evaluation proposes the following areas of action for PROCAP.

- Training activities for institutions of the public sector which are involved with the process of non-traditional exports;
- Technical assistance and consulting;
- Development of the entrepreneurial awareness among school-age youth.

The report also proposes increased generation of user-fee revenues by PROCAP.

Initiation of these activities will require an initial investment. Specific budget provisions are being reviewed in the course of preparation of the detailed program budgets.

2. Administration and Finance

The main strategic considerations in this area were defined in the recent evaluators' report and are covered in section II-D.

SECTION V

PLAN DESCRIPTION - Organizational Structure

The main strategic change proposed would be to strengthen the Administration and Finance Division so that under the guidance of the Managing Director, it can manage all budget and financial aspects of the entire CINDE organization.

V. PLAN DESCRIPTION - Organizational structure

A. Introduction

As described above CINDE has gone through a series of organizational changes during its evolution. The further changes proposed here are the result of yet a new phase in CINDE's evolution. This new structure will have to meet the evolving needs of CINDE's different programs; at the same time, it will have to provide greater direction in the form of long term institutional planning, and greater coordination between the different programs to benefit from the potential synergy which exists in CINDE.

As we discussed above, the recent evaluation stressed the need for CINDE to return to a more traditional organization structure with line authority starting at the General Assembly level and working down through the Board of Directors and the Managing Director to the program managers (see figure V-1).

Figure V-2 shows an organizational variation proposed at a recent board meeting. This structure would leave the CAAP Consejo with line authority over the CAAP program. It might entail a dilution of Central CINDE's effectiveness in managing and coordinating the CAAP's activities.

The structure recommended in this five-year plan is shown in Figure V-3. An Export Development Manager would be charged with technical coordination of all direct export promotion activities, including CAAP, the local and offshore investor service activities presently lodged in PIE, and the new Industrial Development Program.

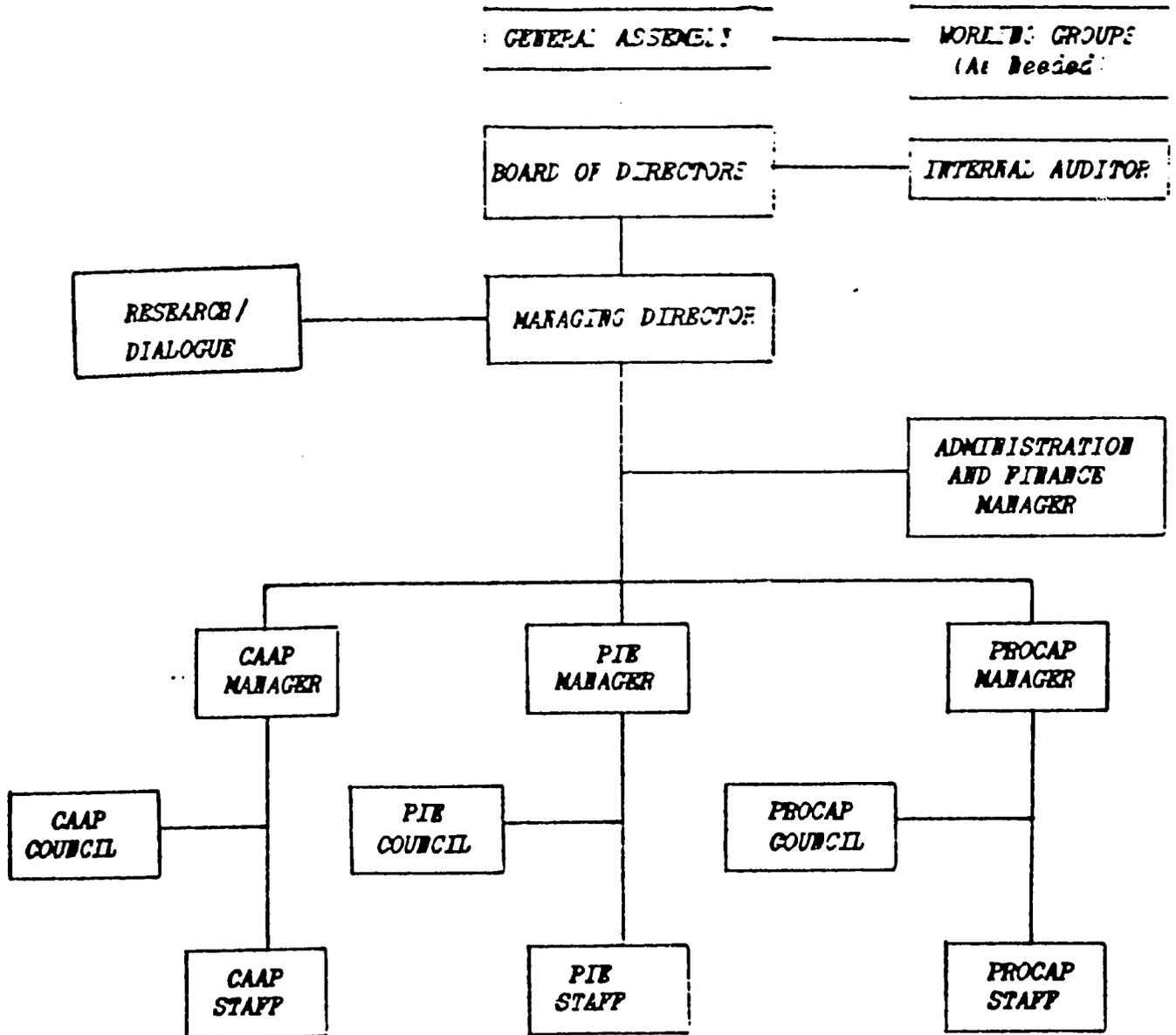
The present CAAP and PIE Councils would be merged into a single Export Development Council, whose role would be advisory. (This Council might, at its discretion, designate subcommittees for individual programs).

The reasons for placing a technically qualified Export Development Manager in charge of all the direct export promotion activities would be:

- (1) To ensure better coordination between the activities (PIE and CAAP have experienced problems in this regard), and
- (2) To facilitate the process of setting clear targets for the export promotion activities, and holding the programs responsible for achievement of those targets.

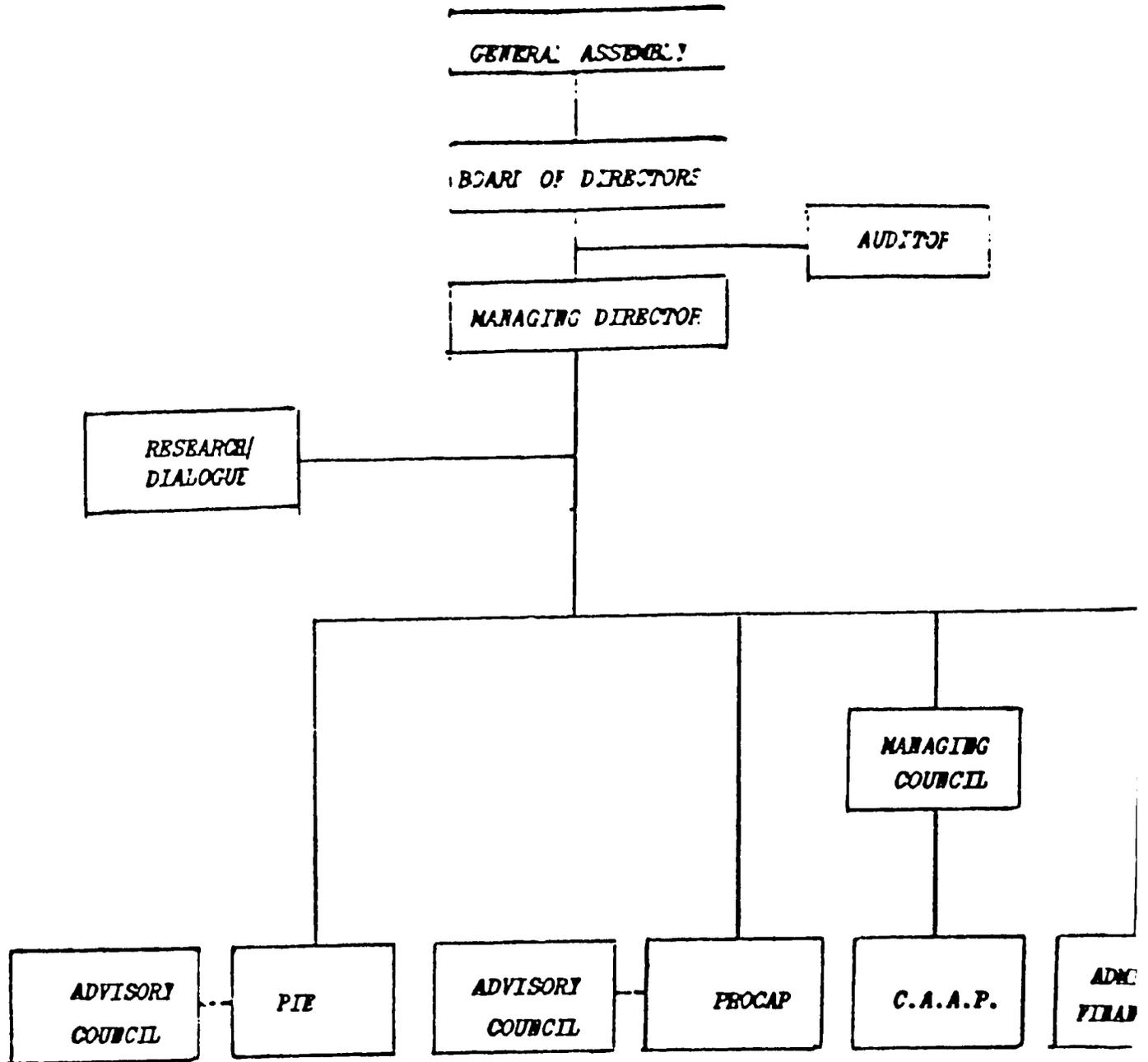
The merging of the Councils is expected to aid in coordination and to avoid confusion in lines of authority.

CINDE ORGANIZATIONAL CHART: RECOMMENDED BY 5/88 EVALUATION

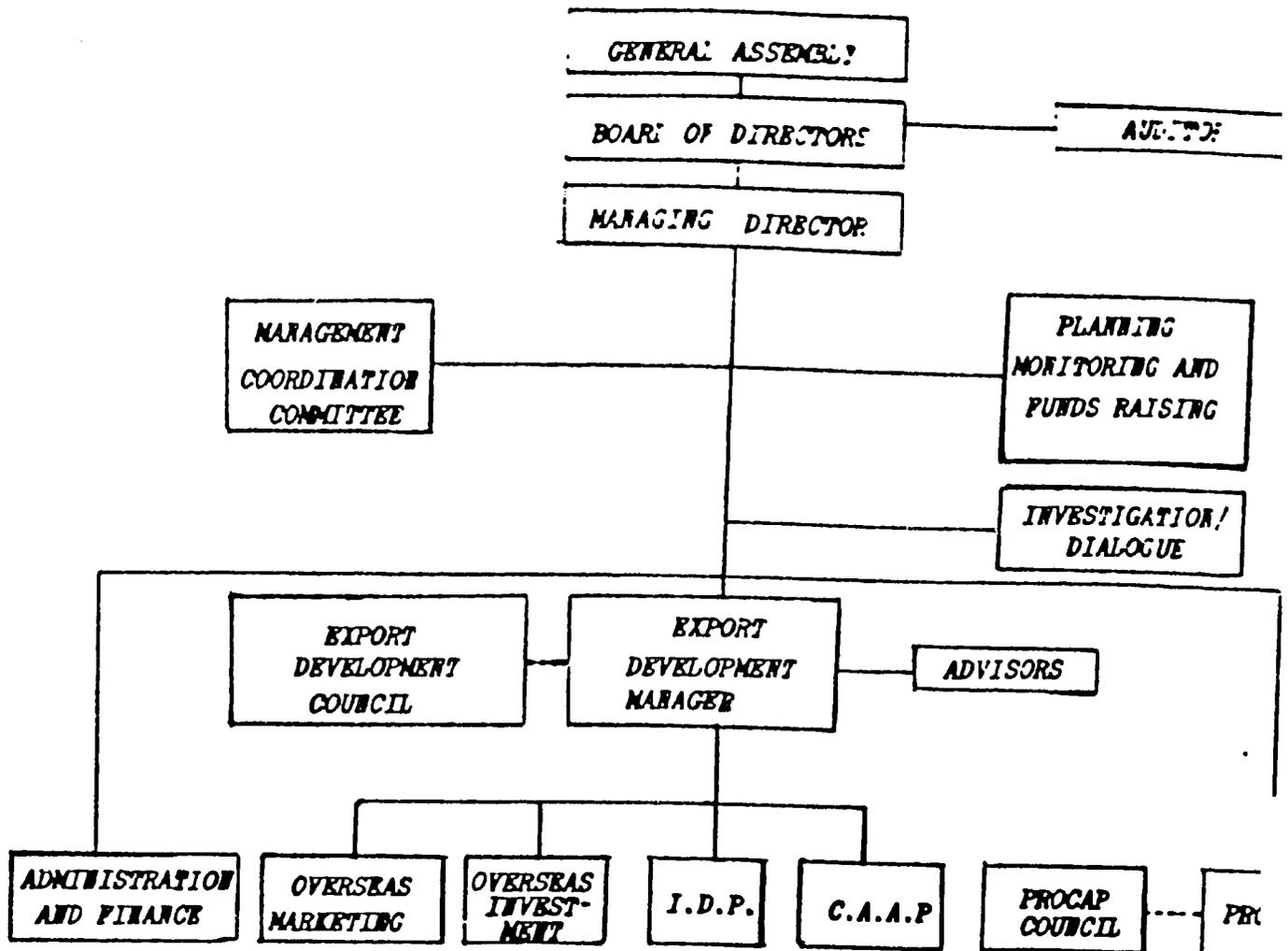


- FIGURE V-1

CITIZEN PARTICIPATION PROPOSALS AT JULY 1981 BOARD MEETING



CIVIL STRUCTURE RECOMMENDED TO THE PRESIDENT FIVE-YEAR PLAN



A brief review of each of the units within the recommended structure follows:

B. The General Assembly

The recent CINDE evaluation described the General Assembly as the equivalent of the "stockholders" of CINDE, although they do not have an economic interest in the organization. While the General Assembly is responsible for electing the Board of Directors and its officers, up until now the General Assembly has not played an active role in determining CINDE's operations.

In the future, an operational role for the Assembly will include participating in the working groups to be set up for each policy dialogue issue, and the Consejos.

C. The Board of Directors

It is anticipated that the CINDE Board of Directors will continue to meet twice a month. However, the Board of Directors should schedule quarterly meetings with the key staff of each Division to review progress and to cover any additional issues of a policy nature. By having each Division meet with the Board on a quarterly basis at least one Board meeting per month will be specifically oriented to a Division, leaving the second meeting of each month to cover more general issues, as well as the activities of the Research and Policy Dialogue activities and the Monitoring and Fund Raising activities where the Board of Directors is expected to participate heavily in the planning and implementation of some of the activities.

The programming of quarterly meetings with each Division is expected to correct one of the major problems of the present organizational structure, which is the lack of direct contact between the program staff and the members of the Board of Directors. While some directors are presently on a Consejo, other directors rarely become familiar with a program if they are not working with that Consejo.

The Board of Director should continue to have overall budgetary control over all aspects of CINDE's activities, and should focus on key policy issues within the organization, including the main direction that the programs are taking.

D. The Managing Director

Under the new organizational structure, the office of the Managing Director will undergo significant change:

1. Board of Directors

The Managing Director under the new structure will become a voting member of the Board of Directors

2. Research and Policy Dialogue

He will also have responsibility for the research and policy dialogue activity.

3. Planning and Monitoring

Planning and Monitoring is shown as a staff activity on the organizational chart, directly responsible to the Managing Director, and is intended to institutionalize a function which has always existed within CINDE, but on an "ad hoc" or informal basis.

It will concentrate on that part of the planning function pertaining to the monitoring and achievement of organizational goals and targets.

4. Fund Raising

The securing of funds to ensure future sustainability is one of the greatest challenges facing CINDE. This activity can only be handled at the highest level within the organization. It will involve dialogue with top level Government and Private Sector individuals, both within and outside Costa Rica. For this reason it is being placed within the direct area of responsibility of the Managing Director.

5. Program Managers

The Managing Director will have full control over the Division Managers who will report directly to him.

E. The Councils (Consejos)

Under the new structure, the role that the Consejos will play has been totally redefined. Perhaps the greatest change is that the Consejos will no longer have direct authority over the programs, but rather will serve as advisors to management.

In order to ensure good cooperation between the direct export generating programs (PIE, IDP and CAAP), the present PIE and CAAP councils will be combined.

The need for strong advisory support on the CAAP side is very evident, and the need for direct input from the agricultural community is going to be essential. This can still be achieved through a combined consejo, which may choose to form subcommittees for individual sectors.

Equally, the need for very direct input from the Industrial Community into the Industrial Development Program is going to be important, since sector and company selection will have a major impact on the future shape of this sector. This can equally be achieved through a combined advisory consejo.

SECTION VI

PLAN DESCRIPTION - Finance (Budgets)

4

There may well be a need for an intermediate stage, where the PIE and CAAP consejos take on their advisory role and a timeframe is worked out for integration.

The PROCAP council will likewise take on an advisory role. Each of the councils will continue to elect its own chairman and other functionaries and will be responsible for making recommendations at the technical level.

F. Direct Export Programs

The two major changes in this area are:

- (1) The Managing Director comes directly into decision making process, having direct responsibility over the programs.
- (2) The creation of a second level manager, who focuses on export development and integrates the programs that contribute directly to the generation of exports. (PIE, IDP and CAAP).

G. Support Services

This plan also implies a strengthening of the role of Finance and Administration to include a complete Financial and accounting service to the organization.

Internal staff training will be added to PROCAP's responsibilities.

VI. PLAN DESCRIPTION - Finance (Budgets)

A. Introduction

The most critical issue that CINDE faces at this time is its long term financial viability. By the end of 1988, most of the original donations that USAID/Costa Rica made to CINDE will have been spent, leaving CINDE almost totally dependent on outside revenue sources. Furthermore, over the next two or three years, CINDE has very little chance of securing substantial levels of revenues from any source other than USAID/Costa Rica, as will be discussed in more detail below. Faced with an annual budget of approximately \$9.7 million, CINDE must clearly secure a source of long term funding as an addition to the annual funding process with USAID/Costa Rica, which currently provides CINDE with the bulk of its operating revenues.

There are several areas that CINDE can act on that will help to reduce its dependence on USAID/Costa Rica in the long run. For example, it is essential that CINDE carry out a full time aggressive fund raising effort. Also CINDE must look for ways to maximize program revenues. However, the analysis in this section will show that these sources can never be expected to cover more than a third of total program costs. Any realistic financial plan must include substantial contributions from USAID in the short term, and the GOCR over the long term.

Table VI-1, shown on the next page, presents a five year budget for the institution. It is divided into two main components, the uses of funds, which are made up of the different program needs, and the sources of funds, which are sub-divided into revenues from investments, program revenues, and other revenues. The analysis has been presented in U.S. dollar equivalents to simplify the table and to avoid having to consider devaluations of the colon. A discussion of each of the components shown in Table VI-1 is provided in the following sections.

CINDE 5 YEAR PLAN-BUDGET (Table VI-1)
(\$000)

USE OF FUNDS	1989	1990	1991	1992	1993
PIE	3500	3744	3624	4050	4211
CAAP	2800	2912	3028	3150	3276
IDP	1500	1560	1622	1687	1755
PROCAP CINDE *	500	520	541	562	585
PROCAP AID (515-0212)	490	305	0	0	0
RESEARCH AND DIALOGUE	215	224	233	242	252
FUND RAISING	100	104	108	112	117
ADMIN/FINANCE	250	260	270	281	292
CENTRAL CINDE	225	234	243	253	263
TOTAL PROG. COSTS	9680	9863	9940	10338	10751
SOURCES OF FUNDS					
USER FEES					
-PIE	0	0	0	0	0
-CAAP	0	146	303	472	819
-IDP	0	0	162	253	351
-PROCAP +	100	130	162	197	234
SUBTOTAL USER FEES	100	276	627	922	1404
INVESTMENTS					
-BANEX/COFISA	376	316	266	223	187
-PIC DIVIDENDS	0	100	200	300	400
SUBTOTAL INVESTMENTS	376	416	466	523	587
OTHER SOURCES					
-FUND RAISING NON-GOCR	0	493	994	1551	1613
-AID D.A.					
PROCAP AID (515-0212)	490	305	0	0	0
NETS	1000	1100	1300	0	0
-ESF - M.P.U.	8090	8354	6074	5113	2659
-GOCR	0	0	479	2229	4489
-SIA					
SUBTOTAL OTHER SOURCES	9580	10252	8847	8892	8760
TOTAL SOURCES	10056	10943	9940	10338	10751

* NOTE: RTAC has not been included here as it is a project outside the normal run of CINDE activity and the funding is altogether apart.

+ NOTE: PROCAP's user fees are projected as a percentage of PROCAP-CINDE costs.

B. Uses of Funds - Program Needs

As shown in Table VI-1, the total program needs for 1989 are estimated at \$9,680,000 and by the end of 1993 will total approximately \$10,751,000. The uses of funds are broken down into different components, each reflecting a cost center within CINDE, either for an existing or new program. The budgets were prepared with the program management and staff, and the following factors were taken into account: new programs coming on stream, the phasing out of completed programs, increases and decreases in the level of activities of existing programs, and AID funding constraints. It was also assumed that currency devaluation would be broadly in line with inflation and that the inflation in dollar figures would run at about 4%.

Continued funding of individual programs at the projected levels will depend on how well the programs perform against their targets. Although every CINDE program will be funded based on its results, this sort of review will be especially critical for CAAP, which is too young to have established a definitive track record, and IDP, which has not yet been implemented. Of course, any program reduction or termination would lower total CINDE financial requirements.

These figures are meant to be global estimates with the primary objective of looking at CINDE's overall funding needs. More detailed financial projections exist at the divisional level; however, they have not been presented in this document given that for this exercise only the global figures are needed.

C. Sources of Funds

The sources of funds are broken down into three sub-components: User fees, "investment" revenues, and other revenues (which include fund raising, USAID donations and GOCR donations). Each of these is discussed in greater detail below.

1. Investments

Investment revenue is expected to come from the BANEX/COFISA trust and the Private Investment Corporation shares.

The BANEX-CINDE trust was signed on June 22, 1983. COFISA received C223,500,000, which was to be repaid to CINDE over a fifteen year period. The amounts in the budget reflect the terms of the Trust Agreement.

In 1985, USAID provided CINDE with the local currency equivalent of \$5,000,000 which was to be invested in the Private Investment Corporation (PIC), to assist in the initial capitalization of that project. CINDE purchased class B shares, which provided CINDE with one seat on the Board of Directors of the PIC, and under the terms of the Memorandum of Understanding, CINDE was to sell these shares off to the general public by 1989, at which time they would be converted to regular class A voting shares. Unfortunately, due to project implementation delays which have affected the PIC's profitability, at this time there is not yet a market for the PIC shares at a reasonable price.

For the purpose of this analysis it is assumed that CINDE will continue to hold the PIC shares for some time, and that dividends from these shares, or income from the invested proceeds of the sale of these shares, will provide the following cash flows :

1989	0% of \$5,000,000
1990	2% of \$5,000,000
1991	4% of \$5,000,000
1992	6% of \$5,000,000
1993	8% of \$5,000,000

Thus, the PIC dividends would contribute \$400,000 in 1993, which is equal to approximately 4% of total projected program needs in that year.

2. User Fees

The potential to raise revenues by charging user fees varies widely by program.

PIE: The foreign investment promotion program is not anticipated to be able to raise user-fee revenues through existing activities because its objective, which is to promote foreign investment in Costa Rica in a very competitive market-place, is such that charging for services is impractical. Traditionally, countries have never charged targeted investors for these types of services, and in some cases countries even subsidize travel or other expenses for these prospective investors. PIE is essentially a sales function; and prospective customers are seldom willing to pay for a salesman's services.

On the other hand, it is expected that PIE clients, once they have successfully established profitable operations in Costa Rica, will be approached for donations to CINDE: these revenues are included in the fund-raising projections discussed below.

PROCAP: The immediate beneficiaries of PROCAP's training programs are the individuals and companies which receive the training. Thus, it is reasonable to expect that these beneficiaries would bear a substantial part of the cost of the courses. From its inception, PROCAP has charged tuition to help cover its costs. But as the recent evaluation pointed out, PROCAP's tuition charges thus far have not been large enough to really "test the market": i.e. to define the limits at which further increases in tuition would seriously discourage participation in the courses. (Current tuition charges cover only about a tenth of total program costs).

Given the "external" economic benefit which this training confers on the country as a whole, it is not deemed desirable (nor feasible) to require that all of the program costs be paid by the direct users. Selection of a target percentage at this time is somewhat speculative, in the sense that it remains to be determined what the market will bear. On the other hand, if PROCAP is not eventually able to obtain tuition levels covering something approaching half of its costs, questions would have to be raised about the economic value of the activity.

The financial projections here call for a doubling of tuition coverage next year, with subsequent increases of 5% per year, reaching 40% by 1993. Further increases, perhaps to a 50% level, may be appropriate thereafter. Every effort will be made to accelerate the pace of these increases beyond what is projected here; but the levels in the present budget represent the best current guess as to what will be feasible.

CAAP and IDP: Both CAAP and IDP include technical assistance activities, and thus should be able to charge fees to the companies which are the immediate beneficiaries. The ability to raise funds through this mechanism will be limited in the early years; until the programs develop a reputation for success, it is difficult to make significant charges for services. This has been shown to be true in similar programs in many other countries (see for example the recent ISTI evaluation of FIDE in Honduras, and the experience of the Irish Industrial Development Authority).

User-fee revenues shown for each program in Table VI-1 are based on percentages of program costs for each year.

Program	1989	1990	1991	1992	1993
--PIE	0%	0%	0%	0%	0%
--CAAP	0%	5%	10%	15%	25%
--IDP	0%	0%	10%	15%	20%
--PROCAP- CINDE	20%	25%	30%	35%	40%

3. Fund Raising

CINDE's five year plan calls for a serious full time fund raising effort to secure donations from sources other than USAID and the GOCR; such sources would include the Costa Rican private sector and other foreign donors. While in the past CINDE has made some attempts to explore fund raising alternatives, it has not previously set an institutional target nor assigned the responsibility to a unit in order to carry out the activity.

Serious efforts will be mounted to solicit donations from the Costa Rican private sector. As noted above, foreign companies who have been helped by PIE to set up operations in Costa Rica may be promising targets, after a few years when these local operations have established their profitability. (Foreign companies, it should be noted, are more habituated to pro bono contributions than are Costa Rican-owned businesses).

CINDE will also be aggressive in seeking donations from domestic companies, especially non-traditional exporters. However, it would be imprudent to depend on an enthusiastic response from local companies. There is not much of a local tradition for such contributions. Even the local business chambers, which are dedicated almost exclusively to the immediate commercial interests of their members, have never been able to secure member funding at levels that permit anything but the most rudimentary activities.

Public sector donor agencies in Europe and Asia have expressed an interest in some of CINDE's programs. Conversations have been held with the EEC, and with bilateral agencies in Europe. CINDE has also been able to identify possible sources of Asian assistance, particularly from Japan and Korea. In some cases, conclusion of an agreement with these agencies has been impeded by lack of cooperation from GOCR agencies; but there is some reason to hope that recent improvements in the relationship between CINDE and the relevant government units will continue to the point where this will not be an obstacle.

CINDE has made efforts in past years to secure support from private foundations in the U.S. Not surprisingly, these institutions showed no interest in supporting a program which was working to attract U.S. investors offshore. Some possible interest was expressed in supporting CINDE's work with private voluntary organizations, but that unit was spun off from CINDE in 1986. The effort will be repeated in the future, in the hope of identifying some foundation support for local activities such as CAAP and IDP, but the prognosis is not encouraging.

For purposes of this five-year plan, the following global targets have been accepted for fund-raising efforts.

1989	0% of total uses of funds
1990	5% of total uses of funds
1991	10% of total uses of funds
1992	15% of total uses of funds
1993	15% of total uses of funds

The fund-raising unit discussed previously is expected to be in place before the end of 1988. Its first task will be to set more detailed targets for the individual fund-raising sources identified above, and to articulate an action plan with deadlines. The work of this fund-raising unit cannot be thought of as purely a staff function; active involvement by senior management and the board of directors will be essential.

4. USAID Program Support

Table VI-1 shows "DA" revenues from two AID projects which are funded by dollars appropriated by the U.S. Congress under the Development Assistance account: PROCAP/AID, Project #515-0212; and Non-Traditional Agricultural Export Technical Assistance (NETS), Project #515-0237.

"ESF" revenues represent program support funded by GOCR-owned local currency generated in connection with U.S. balance-of-payments assistance from the Economic Support Fund account. It is assumed that this local currency will cover the following percentages of total program costs (exclusive of DA-funded costs and fund-raising costs).

1989	100% of total uses of funds
1990	100% of total uses of funds
1991	75% of total uses of funds
1992	50% of total uses of funds
1993	25% of total uses of funds

No USAID program funding is anticipated after 1993.

It is of course possible that CINDE might approach USAID at some future point with proposals for new programs, in areas not currently anticipated. However, the present exercise does not attempt to project either the costs or the revenue sources for such programs.

5. GOCR Funding

Given the limitations on USAID program funding, it is perfectly clear from the above analysis that CINDE cannot expect to continue its future programs at anything like the present levels from some combination of investment revenues, user-fees, and (non-GOCR) fund-raising. Table VI-1 demonstrates that this situation will become critical by 1992.

Thus, the institution will be confronted with a stark choice: either substantial GOCR funds must be secured, or programs will have to be cut back drastically. If GOCR assistance is not forthcoming, the resulting program reduction will probably be extreme. (Any cutback in programs implies a proportional reduction in likely user-fee revenues or contributions).

Absent GOCR funding, it is probable that CINDE would be reduced more or less to its investment revenues, which may be sufficient only to maintain a modest policy-dialogue capability. (Such a pared-to-the-bone CINDE might be able to design new programs to present to donor agencies, but these programs would present exactly the same issues of long-term sustainability which now confront the institution.)

This inevitable requirement of government funding should come as no surprise. To the best of our knowledge, the government finances most or all of the cost in almost every country in the world which has established such export promotion programs on a long-term basis. These programs are a classic "public good" in the economists' sense.

Thus, there is no escaping the conclusion that eventual GOCR support is a life-or-death issue for CINDE's principal activities. This raises two serious questions: (1) what is the likelihood of such support?, and (2) if GOCR support is achieved, what will be its implications for CINDE's ability to operate effectively?

At first glance, it would appear that a decision to fund CINDE will not be easy for the GOCR. Pressures on GOCR finances are already critical: the GOCR's ability to finance deficits is limited by agreements with international agencies (not to mention sound fiscal policy), and tax increases become increasingly unattractive as the 1990 elections approach. Furthermore, some actors in the government have tended in the past to see CINDE as unwelcome competition for existing GOCR programs (even though those government programs have had weak results, because of certain unavoidable factors such as civil service limitations and political decision-making in staffing and operations). Although the present administration is firmly

committed to fostering non-traditional exports, the ideology of the incumbent party tends to be sympathetic to government activism in addressing national problems. Finally, the public disclosure of a recent AID Inspector General's report has cast a cloud (hopefully temporary) over the government's willingness to be visibly associated with CINDE.

Moreover, government funding might entail government controls which could impair the operational effectiveness of CINDE programs. If the programs were placed under civil service regulations, it would be impossible even to approach the salaries necessary to retain a corps of effective promoters. It would be very difficult to avoid political intrusion into technical decisions about operations and staffing, especially if the programs were lodged in a ministry and dependant on annual appropriations by the legislature.

At present it appears that there is only one approach which offers any realistic promise of mitigating the above problems. A comprehensive study recently carried out through the office of the First Vice President has proposed a radical reorganization of the GOCCR's foreign trade functions. One feature of that proposal would be to relocate all promotional operations (i.e. government activities similar to the type of programs CINDE carries out) in a new autonomous agency, outside of civil service, and with very limited political influence over operations. The governing board of this body would include public and private sector representation.

If something similar to this proposal can be implemented eventually, the new autonomous body might provide a viable haven for activities of the sort carried out by PIE, PROCAP, CAAP and IDP (i.e. the vast majority of CINDE's present operations). The quasi-governmental nature of this agency would ease ideological problems. And it may be possible to build in sufficient institutional guarantees against political interference.

Achieving implementation of an autonomous export promotion agency will be a very serious challenge. It is unlikely that such a body can be created in the immediate future. To begin with, past experience has shown that a long and difficult battle can be expected in securing approval of any bureaucratic reorganization by the Costa Rican legislature, especially with an election approaching. In recognition of this, the present Minister of Foreign Trade has indicated that, although he agrees with the desirability of reorganization, he does not plan to place a first priority on this effort until he has secured a public-private sector consensus on a national export development plan.

On the other hand, there are several more promising indications. CINDE's achievements have won the strong support of some highly-placed members of the present administration, who recognize that continuation of these achievements under government aegis would require institutional protection against political manipulation. In its recent balance-of-payments agreement with USAID, the GOCCR executive branch expressed its willingness to use its best efforts to a promote foreign-trade reorganization of the type discussed above. Diverse groups in the private sector have already expressed support for the reorganization, although there are understandable differences of approach on some of the details.

Summing up these considerations, it may not be practical to expect to conclude the needed reorganization before the 1990 elections. However, there is some reasonable chance that it could be effected in the medium-term future. This reorganization probably represents the only viable mechanism to secure government funding for an effective continuation of the work now being done by CINDE's programs.

Therefore, CINDE must exert its most strenuous efforts over the next few years to mobilize support for this initiative.

Even assuming eventual approval of the necessary GOCR reorganization, a source of GOCR funds must be identified. Annual appropriations by the legislature should probably be ruled out, since such a process would probably be inconsistent with the necessary political independence for the export promotion operations. A "dedicated" funding source must be found.

The Chamber of Industries has recently suggested that a tax on non-traditional exports be used to fund promotion activities. While there is a certain logic to this proposal, its obvious disadvantage is its tendency to disincentivate exports.

Alternatively, the new unit might be given access to a portion of the Central Bank's buy-sell spread on all foreign exchange transactions, or a dedicated percentage of the Central Bank's spread on credit lines to exporters. This issue will have to be negotiated in connection with the organization of the new unit.

D. Conclusion

It is clear to the entire CINDE organization, from Board to staff, that the long-term financial sustainability of CINDE's programs cannot be based on any expectation of annual funding from AID beyond the limited horizons laid out above. The past level of effort and resources dedicated to increasing user fees and outside fund-raising must be drastically increased. This plan incorporates targets and institutional changes to accomplish that.

It is also clear that the greatest imaginable success in these efforts will still leave a substantial funding gap which can only be filled by government resources. CINDE has the strongest possible incentive to muster support for such GOCR participation, within an institutional framework which gives reasonable promise of effective program operations.

There can be no present guarantee that CINDE will be successful on this latter front. The price of failure is likely to be high: substantial or total termination of programs which have been of great value to Costa Rica.

But even if this bleakest of outcomes should occur, CINDE is confident that it would leave behind it a legacy which more than justifies the investment which has been made: hundreds of strong Costa Rican exporters who will continue to generate jobs and foreign exchange for the country year after year into the indefinite future.