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PD. AAB-882-81

AUG 17 5 20 PM '78 Acting  
ACTION MEMORANDUM FOR THE ADMINISTRATOR

AUG 17 1978

THRU: ESJEN TAR: A  
FROM: AA/PPC, Alexander Shakow

206p.

Problem: Authorization of a \$5.5 million loan and \$11.4 million HIG for Costa Rica - Urban Employment and Community Improvement.

Discussion: The purpose of the proposed project is to institutional a coordinated government-supported system for reducing the incidence as well as the effects of urban poverty. The project will seek to increase incomes and improve the quality of life of the urban poor by providing greater employment opportunities and improved housing and community services.

Major project activities include: (1) development of small and work owned industries, job training and placement (\$11.3 million); (2) development of an urban planning and policy making capacity with the GOCR (\$0.7 million); and (3) provision of alternative housing solutions and community improvements tailored to the budgets of the urban poor (\$16.3 million).

The total project cost is estimated at \$28.29 million. The AID loan of \$5.5 million will provide industrial credit, job training, and technical assistance. A Housing Investment Guarantee (HIG) of \$11.4 million will finance housing and community infrastructure improvement. The GOCR will contribute \$11.39 million, which is equal to 40% of the total project costs and, therefore, meets the requirements of Sector 110(a) of the FAA.

The DAEC reviewed the proposed loan on August 4, 1978. Based on this review, two minor modifications have been made to the Project Paper. They include:

- (1) the addition of a requirement to review on a case-by-case basis those firms applying for assistance under the loan whose goods are intended for export to the U.S. in order to insure that such goods will not compete with goods produced by depressed U.S. industries; and
- (2) the discussion on the industrial credit fund was expanded to include an explanation of why the credit component was fixed at \$3 million instead of \$2 million as set in previous guidelines.

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The project was included in the FY 78 Congressional Presentation. However, during the intensive review, it was determined that additional resources would be required to carry out the project. Therefore, a Congressional Notification was submitted to Congress on July 21, 1978. The waiting period expired on August 4, 1978. The Initial Environmental Examination recommended a positive determination and as a result an Environmental Assessment was prepared by an environmental consultant from the National Savings and Loan League. The Assessment found that waste disposal methods proposed for the project's housing activity would have beneficial on-site environmental effects and will not significantly aggravate the pollution of rivers in the San Jose area. The project was approved by the Working Group on Human Rights and Foreign Assistance on January 30, 1978.

Recommendation: That you sign the attached Project Authorization and Request for Allotment of Funds (PAF) for the A.I.D. loan and the attached Guaranty Authorization for the Housing Investment Guarantee.

Clearances:

AA/LAC: AValdez Kur Date 8/15  
GC: MBall MB/GE Date 8/15

**DEPARTMENT OF STATE**  
**AGENCY FOR INTERNATIONAL DEVELOPMENT**  
WASHINGTON, D. C. 20523

**ASSISTANT  
ADMINISTRATOR**

Loan No. 515-W-028  
(Ref;AID/LAC/P-001)

**PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS**

Name of Country: Costa Rica  
Name of Project: Urban Employment and  
Community Improvement  
Project Number : 515-0130

Pursuant to Part I, Chapter 1, Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan to the Government of Costa Rica (the "Borrower") of not to exceed Five Million Five Hundred Thousand United States Dollars (\$5,500,000) ("Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required to carry out the project described in the following paragraph. The entire Authorized Amount will be obligated when the Project Agreement is executed.

The project is designed to increase employment and incomes and to improve the conditions of the urban poor in San Jose, and to institutionalize a coordinated government delivery system capable of replicating urban poverty programs elsewhere in Costa Rica (the "Project").

I hereby authorize the initiation of negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

I. Interest Rate and Terms of Repayment

The Borrower shall repay the Loan to A.I.D. in United States Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.

II. Source and Origin of Goods and Services

Except for ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin in countries which are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall be procured in countries which are members of the Central American Common Market or in the United States.

III. Conditions Precedent to Initial Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Borrower shall furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) Evidence that an Interagency Coordinating Committee, composed of representatives of the Ministry of the Presidency, the National Planning Office and the Ministry of Finance, as well as the participating implementing agencies, has been formally established; and that a Project Coordination and Administration Unit has been created and staffed;
- (b) An implementation plan and estimated budgets for all Loan-financed activities; and
- (c) Copies of signed interagency agreements which define proposed work plans and operating procedures of participating Ministries and implementing agencies.

IV. Conditions Precedent to Disbursement for Small Industry Component

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement for financing credit for small industries the Borrower shall, except as otherwise agreed in writing by A.I.D., furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) A copy of its small industry sub-lending regulations, including sub-project and sub-borrower

eligibility criteria, and an implementation plan for training small industrialists;

- (b) Evidence that the Ministry of Economy's Small Industry and Artisan Department has hired and trained sufficient field staff to respond to the projected technical assistance requirements of small industrialists; and
- (c) Evidence that the Borrower has established a Productive Credit Guaranty Project or similar credit guaranty fund mechanism acceptable to A.I.D., which contains adequate contingent reserves to cover potential losses on sub-loans made under the Project.

V. Condition Precedent to Sub-Lending for Worker-Owned and Operated Firms

Prior to any disbursement or the issuance of any commitment documents under the Project Agreement, for financing credit for Worker-Owned and Operated Firms, the Borrower will furnish, in form and substance satisfactory to A.I.D., evidence that adequate managerial talent has been obtained and that each project to be financed is financially, technically, and economically feasible.

VI. Covenants

The Borrower shall covenant:

- (a) to maintain the level of the Small Industry credit portfolio at no less than \$11,400,000 during a period of at least five years after the end of the Project;
- (b) to provide no less than \$3.3 million of its counterpart contribution to the Project for sub-lending to small industries;
- (c) to utilize repayments of principal from A.I.D. funded sub-loans only for those purposes for which A.I.D. Loan funds are authorized; and
- (d) to carry out, with Loan funds, prior to the end of the second year after the first disbursement under



GUARANTY AUTHORIZATION

Provided from:       Housing Guaranty Authority

Borrower:           Costa Rica

Pursuant to the authority vested in the Administrator, by the Foreign Assistant Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not exceed eleven million four hundred thousand dollars (\$11,400,000) in face amount, assuring against losses of not to exceed one hundred percentum (100%) of loan investment and interest with respect to loans by eligible U.S. investors acceptable to A.I.D. made to finance housing projects in Costa Rica.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan, including a grace period on the repayment of principal not to exceed ten (10) years. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.

2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. Government of Costa Rica Guaranty: The Government of Costa Rica shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one percentum (  $\frac{1}{2}\%$  ) per annum of the outstanding guaranteed amount of the loan plus the fixed amount of \$114,000 to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

*P. H. W. ...*

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ACTING . . . . . ADMINISTRATOR

*5/22/75*

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Date



UNCLASSIFIED

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D.C. 20523

PROJECT PAPER

COSTA RICA

URBAN EMPLOYMENT AND COMMUNITY IMPROVEMENT

AID/LAC/P-002

Project Number 515-0130

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT  <b>PROJECT PAPER FACESHEET</b>	1. TRANSACTION CODE <input type="checkbox"/> A ADD <input type="checkbox"/> C CHANGE <input type="checkbox"/> D DELETE	PP 2. DOCUMENT CODE 3

3. COUNTRY ENTITY Costa Rica	4. DOCUMENT REVISION NUMBER <input type="checkbox"/>
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5. PROJECT NUMBER (7 digits) <input type="checkbox"/> 515-0130 <input type="checkbox"/>	5. BUREAU/OFFICE A. SYMBOL LA B. CODE <input type="checkbox"/> 05 <input type="checkbox"/>	7. PROJECT TITLE (Maximum 40 characters) <input type="checkbox"/> Urban Employment and Community Improvement <input type="checkbox"/>
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8. ESTIMATED FY OF PROJECT COMPLETION FY <input type="checkbox"/> 8 <input type="checkbox"/> 1	9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <input type="checkbox"/> 7 <input type="checkbox"/> 8 B. QUARTER <input type="checkbox"/> 4 C. FINAL FY <input type="checkbox"/> 7 <input type="checkbox"/> 8 (Enter 1, 2, 3, or 4)
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A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL	616	1,360.5	1,881	1,612.5	3,887.5	5,500
(GRANT)	( )	( )	( )	( )	( )	( )
(LOAN)	616	1,360.5	1,881	1,612.5	3,887.5	5,500
OTHER U.S. 1. HIG				11,400	—	11,400
OTHER U.S. 2.						
HOST COUNTRY					11,390	11,390
OTHER DONOR(S)						
TOTALS	616	1,360.5	1,976.5	13,012.5	15,277.5	28,290

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY <u>78</u>		H. 2ND FY		K. 3RD FY	
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN
(1) ST	723		860		5,500				
(2)									
(3)									
(4)									
TOTALS					5,500				

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED  MM <input type="checkbox"/> 01 <input type="checkbox"/> YY <input type="checkbox"/> 79
	P. LOAN	R. GRANT	S. LOAN	T. GRANT	U. LOAN		
(1) ST					5,500		
(2)							
(3)							
(4)					5,500		
TOTALS							

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

<input type="checkbox"/> 2	1. NO 2. YES
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14. ORIGINATING OFFICE CLEARANCE		15. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION
SIGNATURE 	DATE SIGNED	
TITLE USAID/Costa Rica Mission Director	MM <input type="checkbox"/> 07 <input type="checkbox"/> DD <input type="checkbox"/> 26 <input type="checkbox"/> YY <input type="checkbox"/> 78	

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ANNEX I - Legal Documents

- A) Mission Director's 611(E) Certification
- B) Statutory Criteria Checklist
- C) Letter of Request from Minister of Finance
- D) Draft Project Authorization
- E) Draft Guaranty Authorization

ANNEX II - Project Documents

- A) Logical Framework Matrix
- B) DAEC Review Cables
- C) INA's Occupational Skills Training Program for Metropolitan San José - 1977, 1978 (planned)
- D) Institutional Capabilities of Implementing Agencies
- E) Shelter and Community Infrastructure - Technical Annex
- F) Shelter and Community Infrastructure - Financial Annex
- G) Credit Demand Analysis for Small Industry \*
- H) Credit Allocations for 1978 under GOCR "Tope" System \*
- I) Prefeasibility Study for "WOOF" producing Captain's Chairs for Export (Supplement) \*
- J) Initial Environmental Examination \*
- K) Environment Assessment \*

\* Copies of these Annexes can be found in the LAC/DR files.

URBAN EMPLOYMENT AND COMMUNITY IMPROVEMENT:  
SUMMARY AND RECOMMENDATIONS

I. S&R

A. Recommendations

The Mission to Costa Rica recommends authorization of a \$5,500,000 Loan and a \$11,400,000 Housing Investment Guarantee to the Republic of Costa Rica. The Loan will be repayable within twenty (20) years including a grace period of ten (10) years. The interest rate will be two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

The HIG loan shall extend for a period of up to thirty (30) years from the date of disbursement of the first installment of the loan, including a grace period of ten (10) years. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.

In addition to the usual conditions, the Borrower will establish a credit guaranty program, acceptable to AID, which is adequate to neutralize the risks to the National Banking System of extending credit to small businesses. The Borrower also will covenant to maintain, for a period to be agreed upon, an equal or higher level of lending to the Project's target group of small businessmen.

B. Project Description

1. Problem.

Over the past decade the urban agglomeration of San José has experienced a crowding phenomenon which afflicts almost all other Latin American capitals and major cities. Natural population growth has been augmented by greater migration from the countryside, yielding a net population gain exceeding the increases in employment opportunities and social services available to the urban poor. The effects of this imbalance -- rising unemployment, the appearance and expansion of slum areas -- and their long-term consequences are recognized by the Government of Costa Rica. GOCR policy in dealing with the poor has been to favor rural areas. Although this attitude is now changing, as the presence and the

needs of the poorest in San José become evident, present government assistance efforts to help the urban poor continue to be carried out in a piecemeal manner through a variety of uncoordinated social service programs offered by different agencies.

## 2. Solution

The Government of Costa Rica recognizes that it must develop a coordinated approach to dealing with the problems of the urban poor. This would be accomplished through interagency collaboration at policy, management and operational levels, including shared outreach programs. The Urban Employment and Community Improvement Project, herein referred to as Urban Environment Project, will seek to demonstrate the viability of this approach while seeking to broaden the range of government assistance to include activities which will improve the economic as well as the social conditions of the urban poor.

After two years of study, including an Urban Assessment and a number of ancillary surveys and reports, the GOCR proposes to institute three replicable inter-institutional approaches to deal with the condition of the poorest inhabitants of San José. Employment opportunities will be created through increases in the labor supply via training and placement of the un- and underemployed, and through increases in the demand for labor via investments in small businesses which utilize unskilled and semi-skilled manpower. Living conditions will be improved through the provision of alternative shelter solutions, such as sites and services, core housing, and home improvement loans, as well as through community infrastructure projects -- sewage, paving, electrification -- which are geared to the ability of the poor to pay. National policies and plans for continuing to treat the needs of the urban poor will be developed through lessons learned during the execution of this Project, through additional study and analyses of urban poverty in the San José urban agglomeration, and through the development of specific policies and programs for urban housing and employment promotion.

## 3. Project Execution

1. Employment and Productivity (Loan - \$4.46 million; COCR - \$6.80 million)

The Social Assistance Institute (IMAS), a GOCR welfare agency, has extension agents working in the poorest rurarios of San José who will publicize the availability of free job training and placement services, and refer applicants to the

Ministry of Labor's Employment Service. Of the approximately 8,000 candidates who will be interviewed, 2,000 will be immediately placed in existing job vacancies by the Ministry of Labor's Employment Service, and 6,000 will be offered basic and occupational skills-training which meets both their interest and abilities and the current and projected demands of the job market. Two forms of training will be provided: on-the-job, in businesses collaborating with the Ministry; and classroom/shop training in the National Vocational Training Institute (INA). The Project is expected to train about 3,000 workers in each manner.

The Ministry of Economy's (MEIC) Small Industry Office (DGATPIA) will offer technical assistance and training to small industrialists to improve their basic business skills and practices, and will assist them in the preparation of credit applications. Of the estimated 3,500 small businesses in the San José area identified in a study of credit demand carried out in May, 1978, it is expected that up to 970 firms presently without access to bank credit will obtain it through this Project.

b. Living Conditions (HG - \$11.4 million;  
GOCR - \$4,442,000)

The living conditions of the poor in San José will be improved through the continued and coordinated efforts of three GOCR institutions. Residents of the poorest tugurios will be offered several ways to improve their housing and communities, including sites and services projects, home improvement loans and community infrastructure projects, all designed to meet their ability to pay, and based on the full recovery of costs using market interest rate loans.

Funding will be channeled through INVU (the National Housing Agency), and IFAM (the Municipal Development Institute). INVU will coordinate the site selection and preliminary design of community improvement projects. It will be responsible for implementing the sites and services projects, the home improvement loan programs and the programs for assisting tugurio residents to either purchase or clear the title on the land on which they live.

IFAM will be responsible for final design of community infrastructure projects and will provide the municipal governments, which will act as sub-borrowers, with technical as-



sistance on the recovery of these investments.

DINADECO (the National Community Development Agency) will have the basic outreach responsibility for all the shelter projects, for which it will rely basically on the community development associations which it has organized or will organize in the tugurios. DINADECO will promote the various shelter programs and will assist participating communities in the decision on infrastructure projects.

c. Urban Planning, Policy and Program Coordination (Loan - \$614,000; GOGR - \$100,000)

While this element will include technical assistance in Project planning and execution, its major focus will be on research into the causes and remedies of urban poverty, and on improvements in the Government's responses to this poverty. Principal objectives include insuring the replicability of this project, the development of national policies in housing and employment generation which meet the needs of the urban poor, and the preparation of subsequent programs dealing with urban poverty in the secondary cities of Costa Rica.

4. Outputs

a. Overall

- Improved institutional coordination and capacity to replicate Project activities on a wider scale, to include the Urban Agglomeration and other secondary cities.

b. Employment and Productivity

- 8,000 workers productively employed.
  - 2,000 workers with marketable skills placed immediately in existing job vacancies.
  - 6,000 workers provided relevant occupational skills training needed to obtain productive employment.

- 800 owners/managers of small industries trained in accounting, management, and other entrepreneurial skills.
- 970 small industries receiving credit assistance.
- Improved lending policies and procedures instituted by the National Banking System (SBN).

c. Shelter and Infrastructure

- \$9.1 million in credit provided for shelter options;
  - i. sites and services and sanitary core 1,000 units
  - ii. sites and services and shell houses 1,000 units
  - iii. home improvements 3,000 units
  - iv. land purchase and/or titling 500 units
- \$6.0 million in credit provided for infrastructure projects.

d. Planning, Policy and Program Coordination

- Interagency coordination institutionalized.
- Policy studies conducted, particularly in urban development, housing and employment generation.
- FY80 Secondary Cities Loan proposal developed.

5. Costs

(US \$'000)

<u>Components</u>	<u>AID</u>			<u>TOTAL</u>
	<u>HIG</u>	<u>LOAN</u>	<u>GOOCR</u>	
1. Housing/Infrastructure	11,400	426	4,442	16,268
2. Employment and Productivity	-	4,460	6,848	11,308
3. Urban Planning, Policy and Program	-	614	100	714
TOTAL	11,400	5,500	11,390	28,290

C. Issues

The issues suggested by the DAEC for attention during this Intensive Review concerned the demand for industrial credit and the need for AID funds to provide it; the establishment of a guaranty mechanism for lending to small businesses; and the operating feasibility and export potential for worker-owned firms. A credit demand analysis follows in Section V.B; the proposed experiment with worker-owned firms is discussed in Section III.B.1.d. As for the guaranty mechanism, a request for a Productive Credit Guaranty Program to support the lending to small business under the Project has been presented to AID by the GOOCR. Given this interest by the GOOCR, we do not feel it appropriate to insist on a detailed plan for a guaranty fund at this time, as the eventual system may well be the PCGP. However, we have received assurance from Central Bank authorities that if the PCGP is not authorized, they will set up and finance a guaranty fund along the lines of the PCGP concept which meets the requirements of the National Banking System for lending to this Project's target group of small businesses. (For further discussion, see Section III.B.(i)).

## II. BACKGROUND

### A. San José <sup>1/</sup>

Costa Rica's capital, San José, is much larger than any other urban area in Costa Rica. It is the site of the country's major economic activities, its principal market, and the center of industrial, commercial, government, transportation, communications and cultural activities. It has almost 600,000 residents, or approximately 25% of the country's population. <sup>2/</sup> If the present rate of growth continues, San José will reach one million inhabitants during the 1990's, when it will account for over 30% of the country's population.

Costa Rica, with a strong democratic tradition, has experienced steadily improving social and economic development which San José has shared. The country's middle income status is reflected by a per capita income above the Latin American average and a relatively healthy, well-educated and secure population. Despite this general progress, however, there is a sizeable group in the San José Metropolitan Area, estimated at 181,000 people, who are poor. Considering present trends in population growth, migration, and rates of job creation, this group is expected to increase in size faster than the rest of the city's population.

### B. Urban Poverty

There are numerous ways of defining urban poverty. Income measurement, indicators of literacy, health and nutrition

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<sup>1/</sup> This section is partially based on the findings and conclusions of an AID-financed study entitled: Urban Assessment of San José, Costa Rica: Focus on Poverty (1977).

<sup>2/</sup> While this section discusses only the Metropolitan Area, San José can refer to an urban agglomeration which includes a belt of smaller cities and proximate rural areas within a 20 kilometer radius of the Metropolitan Area. The population of the agglomeration may exceed 1 million at present, about one half of Costa Rica's total.

status, and additional questions such as desire for socio-economic improvement enter into most such definitions. The Urban Assessment of San José, which was prepared as the analytical background for this Project, used income-measurement as a good, if not the best, overall measure of urban poverty. Two poverty lines based on minimum market baskets at 1973 prices of the San José Metropolitan Area were calculated: a \$263 per capita annual income "poverty" line, and a \$165 "subsistence" line. In 1977 prices, these benchmarks become \$410 and \$269. Using these benchmarks, approximately 36% of all families in the Metropolitan Area fall below the poverty line, and 20% fall below the subsistence line. <sup>1/</sup> (See Table 1). The distribution of poverty within the San José Metropolitan Area is shown in Table 1. A special survey of slum areas <sup>2/</sup> disclosed that among the slum population 10 years old and more, less than 53% has completed primary school (vs. 63% for the entire Metropolitan Area). Approximately 33% of the tugurio residents live in sub-standard or overcrowded housing (vs. 10% for the Metropolitan Area), and only 38% own their own homes (vs. 53% for the Metropolitan Area).

There are other indicators that families below the poverty line are much worse off than tugurio residents in general. Poor families are larger than the average for the San José Metropolitan Area (6.3 members vs. 5.3), have more dependents (1.2 vs. 0.7), and a much higher unemployment rate (14% vs. 5%). For the very poorest ("subsistence" level) families, the dependency rate (1.4) and unemployment rate (22%) are significantly higher.

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- <sup>1/</sup> Poverty definitions based on the market basket approach suffer from obvious methodological problems. One inconsistency "living below the subsistence level" -- is a contradiction in terms. This inconsistency is probably due to a combination of the following: incomplete information on earnings, including unrecorded transfers such as government services, loans or theft, and errors in the analyst's perception of minimum needs. Despite these problems, the market basket approach and resulting poverty definitions provide a good indication that there is a sizeable group of people living in poverty in San José.
- <sup>2/</sup> Ministry of the Presidency Office of Information Informe General de la Encuesta en Zonas Marginales del Area Metropolitana de San José (1977).

TABLE 1

Distribution and Intensity of Poverty in San José

<u>1973 Census Data</u>	<u>Population</u>	<u>Population as Percent of Total</u>	<u>The Poor: Annual Per Capita Income</u>				<u>The Poor as % of all Inhabitants of the Area, Poverty Defined at</u>	
			<u>Below ₡2,000</u>		<u>Below ₡1,300</u>		<u>₡2,000</u>	<u>₡1,300</u>
			<u>Number</u>	<u>% SJO</u>	<u>Number</u>	<u>% SJO</u>		
<u>Column</u>	<u>1</u>	<u>2</u>	<u>3</u>	<u>4</u>	<u>5</u>	<u>6</u>	<u>(7)=(3÷1)</u>	<u>(8)=(5÷1)</u>
Total Population of San José Metropolitan Area	501,000	100.	181,000	100	99,000	.100,	36	20
Tugurio Zones	73,000	15	40,000	22	23,000	23	55	32
Non-Tugurio Areas	428,000	85	141,000	78	76,000	77	33	18

SOURCE: Urban Assessment of San José, Costa Rica; Focus on Poverty, p. 68.

The Urban Assessment found an unemployment rate to be approximately 15% (or 6,400 workers) among target group families in Mid-1977. 1/ Furthermore, an additional 4,050 people (15% of the labor force living in tugurios) were underemployed - they wanted to work more, or presently work long hours for low pay. If the same proportion of the non-tugurio labor force (167,000) are also underemployed, the Metropolitan Area underemployed would total about 29,000. Obviously the underemployed are not all from target group families, who account for about 36% of the Metropolitan Area total. If the underemployed are distributed proportionally among the poverty and non-poor groups (a conservative assumption), then 36% of the 29,000, or some 10,400 poor workers are underemployed. Together with the unemployed, this indicates that a total of 16,800 target group workers (out of a total target group labor force of 44,000) are seeking employment or desire better jobs.

The Assessment further found that the employment situation among target group families may be worsening, in part due to an overall increase in the labor force participation rate (LFPR) over the last few years. There is a net increase because many more women are working or seeking employment. Because the number of people expected to enter the labor force over the next two years (60,000) exceeds the rate of job creation in San José (approximately 24,000 per year), the unemployment rate for the target group can be expected to increase.

A recent Ministry of Labor 2/ survey of 2,162 business establishments which have more than 10 employees identified 3,245 jobs presently unfilled, of which approximately 80% (2,608) were vacant because qualified workers were not available. The survey also identified a total of 16,184 jobs that these businesses plan to create during 1977-1979. Among these actual and possible jobs, the following are the occupations with the highest indicated demand:

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1/ Opcit., p. 118.

2/ Ministerio de Trabajo y Seguridad Social, Encuesta de Establecimientos (9/77).

<u>Occupation</u>	<u>Nº of Jobs</u>	<u>% of Total</u>
Mechanics	3,700	21
Seamstresses, Tailors	1,665	9
Salespersons	1,293	7
Construction Workers	870	5
Machine Operators - wood products	720	4
Operators - chemical ind.	686	4
Operators - needle trades	393	2

A survey of tugurio residents carried out for the Ministry of the Presidency in 1977 <sup>1/</sup> indicated that these are the kinds of jobs slum residents want. (See Table 2). Many of these jobs require minimal training. Even if responding establishments have overstated their future hiring plans, these data indicate a demand for skills that target group workers have or could learn. However, because of the insufficient job creation rate, and competition from workers from non-poor families for the available jobs, it is also clear that more will be needed to absorb the unemployed and underemployed from families below the poverty line.

C. Urban Sector Assessment Conclusions

Following in summary form are the major findings and conclusions of the Urban Sector Assessment.

- Migration of rural residents to Metropolitan San José is low (less than 2% a year) and there are no

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<sup>1/</sup> Ministerio de la Presidencia, Oficina de Información, Informe General de la Encuesta en Zonas Marginales del Area Metropolitana de San José (1977) Volume I, p. 85.



TABLE 2  
Training Desired by Tugurio Residents

	<u>Total</u>	<u>Employed</u>	<u>Unemployed</u>
Number of Respondents	349	216	133
Course Desired:	(% of Responses)		
Secretarial	19	17	22
Seamstress, Tailor	23	13	38
Mechanic	15	19	7
Construction Work	8	12	1
Electrician	6	8	1
Clerical, Admin.	6	7	4
Manual Arts, Decorator, Hairdresser	5	3	10
Cook, Baker	4	4	4
Other	15	17	13
Totals	100*	100	100

SOURCE: Ministerio de la Presidencia, Oficina de Información, Informe General de la Encuesta en Zonas Marginales del Area Metropolitana de San José, 1977, p. 85.

\* Does not add to 100% due to rounding.

significant socio-economic differences between migrant and non-migrant groups. 1/

- Approximately 20 percent of the Metropolitan Area population falls below the subsistence level (\$145 per capita income - 1973) and 36 percent below the poverty level of \$225. The concentration of poverty is higher in tugurio areas (32 percent below the subsistence level and 55 percent below the poverty line).
- Less than one-fourth of the total poor population of San José lives in tugurios -- the other three-quarters are scattered throughout the Metropolitan Area. Therefore, programs and policies to help the poor must reach beyond tugurios.
- Tugurio residents are relatively well organized and capable of mobilizing themselves for collective action.
- Tugurio dwellers consider that the government is responsive; some two-thirds of the people interviewed said they would turn to local government or political channels for action on grievances.
- Community development programs must be geared to the expressed needs of the community, and must involve considerable local participation in planning and implementation.
- The unemployment situation in the tugurios is serious. For those below the subsistence line, male unemployment rates were 25% and female 11% in 1977.
- Most workers receive their wages in cash, although 5 percent receive wages in kind; and the earnings of another 5 percent are derived from the sale of

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1/ However, migration to the surrounding Urban Agglomeration is rising rapidly.

foods and artisan products. The latter two categories fall in the "informal sector" of employment, where incomes are low. A sizeable proportion of those interviewed work in very small business -- 30 percent in firms with fewer than ten employees. The small scale industry and informal sectors employ over 40% of tugurio workers.

- The vast majority of tugurio job-holders found employment through informal information networks, rather than through advertisements or employment services. There was a strong expressed interest in job training.
- There are a number of areas in which decisions can be taken by the Government to stimulate the demand for labor: appropriate factor pricing, adoption of more efficient and labor intensive technologies, public service employment for the hard core unemployed, creation of alternative forms of labor intensive industries, and credit and interest rate policies. A series of policies and programs have also been identified which can increase the supply of labor, such as strengthening the employment service, and improving and expanding formalized occupational skills training and apprenticeship programs.
- New mechanisms for planning interagency coordination and for decentralizing authority will be needed for urban poverty programs. The new mechanisms must focus on the perceived needs of the poor in order to maximize local participation.
- A National Housing Policy should be formulated in order to permit more effective and efficient utilization of available financial and institutional resources. Special attention needs to be given to those factors such as low interest rates, institutional weaknesses, and legal constraints which have prevented adequate investment funds from reaching low-income families.

- Purchasing power currently channeled into rental payments is adequate for modest housing solutions (either new housing or improvements).
- Housing solutions should involve as little abrupt change in the lives of residents as possible. Improvement of existing structures is preferred, and self-help housing and the sites and services approach should be combined to the extent possible.
- External assistance to the San José Urban Agglomeration currently addresses broad issues of infrastructure, housing, credit, planning -- but is not coordinated or specifically directed towards the poor. In order to meet the needs of these people, specific programs in such areas as job placement, promotion of labor-intensive technology, stimulation of new production possibilities, community services and infrastructure, and home improvement need to be developed.

D. GOCR Programs, Policies and this Project

The Costa Rican Government has long been committed to the alleviation of urban poverty, but that policy has assumed that the incidence of such poverty was restricted and could be adequately dealt with in a piecemeal manner by agencies which provided a variety of services to the poor. Thus, the Social Assistance Institute (IMAS) has looked after the "poorest of the poor" by constructing subsidized minimal housing. The National Housing and Urban Development Institute (INVU) has created housing projects for the lower middle classes; the National Office of Community Development (DINADECO) has assisted in organizing communities; the National Municipal Development Institute (IFAM) and the National Institute - Water and Sewage Service (AyA) have dealt with environmental and infrastructure improvement.

Recent periods have also seen an increase in the activities of the Ministries of Labor and Health. The Programa de Asignaciones Familiares (Family Allowances Program) has been increasingly focused on the marginal areas of the San José Metropolitan Area.

The Government now recognizes that it must increase its emphasis on productive opportunities targeted on the poor, and

that it must develop an institutional system to coordinate the efforts of independent entities in dealing with the poor. This system will facilitate analysis of individual, family, and community problems and needs through a network of public and private agencies. These agencies would provide timely outreach and referral services <sup>1/</sup> aimed at resolving problems and improving opportunities for low income people. The system would minimize duplication, direct resources to problem areas, and ensure prompt and effective service delivery. This would be accomplished through interagency collaboration at policy, management, and operational levels, including shared outreach programs designed to familiarize prospective clients with the services available through the network and encourage their participation.

The Urban Environment Project will demonstrate the viability and effectiveness of this approach to assisting the poor. As the agencies work together and develop better outreach and delivery systems, resistance to additional cooperation will be lessened, the need for additional linkages and services will become clearer, and development of a dynamic and more effective system will be underway.

Through the Project, coordinated planning, implementation, and evaluation efforts will be directed towards job creation and housing, which have been identified in the Urban Assessment as essential to improving the incomes and standard of living of low income families. Given the progress already being made in education, health, and family assistance, and the directness of benefits which will result from increased employment opportunities and improved housing, the Project's emphasis on improving services in these later two areas is the logical next step in developing the GOCR's capability to assist low income urban families.

The Project will be monitored and coordinated by an interagency coordinating committee supported by a special administrative unit within the Office of the Presidency, and will be

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<sup>1/</sup> As used here, services include: education, health, social assistance to low income families, employment services, credit for small businesses, family planning, and housing.

implemented by four separate clusters of agencies, one for each major activity: small industry assistance and credit; job training and placement; housing and community infrastructure; and Urban policy, planning and programming.

In addition, the employment activity involves outreach work by private voluntary organizations; the housing component involves community organizations and municipalities. The National Planning Office (OFIPLAN) will be responsible for overall planning, policy development, and program evaluation.

### III. DETAILED PROJECT DESCRIPTION

#### A. Goal, Purpose, Target Group

The Goal of the Project is to increase the income and improve the quality of life of San José's urban poor. The earnings of 8,000 families who will receive assistance in finding employment are expected to increase 64% over the current income levels. Housing and community infrastructure improvements will benefit approximately 13,000 families.

The Purpose of the Project to institutionalize a coordinated government-supported system for reducing the incidence as well as the effects of urban poverty. The institutionalization of the system will be indicated by the establishment of a service delivery network for effectively assisting San José's poorest families, which will involve several government agencies working in close collaboration.

By the end of the Project, the outreach system dealing with this group is expected to be able to identify some 5,000 families per year who need assistance in finding employment or improved shelter. It also will help 400 businesses per year to expand or improve their operations. The system will be capable of training and placing around 3,000 workers/year in new jobs, and of producing low income housing solutions at a rate of approximately 2,000 per year.

Up to 3 worker-owned and operated firms will be established to test the feasibility of this approach to increasing the demand for and returns to labor. By the end of the Project the National Banking System's (SBN) small industry portfolio will have increased from the present level of approximately \$4.2 million to a total of \$11.4 million. It is expected that one additional job will be created for each \$2,000 dollars of credit utilized.

Criteria will not be the same for the selection of beneficiaries of the employment and of the housing activities. Although housing assistance will be provided to families with below median incomes (approximately \$262 per month in 1977), families receiving employment assistance will be limited to those with below poverty line incomes (approximately \$200 per month in 1977 <sup>1/</sup>). While fam-

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<sup>1/</sup> Nonetheless, the most expensive shelter solution, a serviced site with a basic core house costing \$3,600, (financed for 20 years at 12%), or a \$1,405 home improvement loan (10 years at 12%), will be affordable initially to families earning \$200 per month.

ilies living anywhere in the metropolitan area will be eligible for employment assistance, housing assistance will be limited to areas characterized by high concentrations of low-income families, dilapidated housing, and inadequate infrastructure. 19 "nucleos" <sup>2/</sup> have been selected for the initiation of this activity. The more limited area focus for the housing component has been adopted to maintain emphasis on improving the physical environment for low-income families. However, despite the different eligibility definitions, the GOOCR still expects that most Project activities will be concentrated in the 19 nucleos, with the majority of beneficiaries to be the poorest families residing in those target areas.

B. Activities and Outputs

The Project consists of three interrelated activities: employment and productivity, shelter and community improvements; and urban planning, policy and program development.

1. Employment and Productivity (Loan - \$4,460,000)

The labor market in San José does not clear. People with little experience and training often find it difficult to find suitable employment, while a sizeable number of jobs are not being filled due to a lack of qualified candidates. The Project will address both sides of the problem by increasing the effective labor supply and by generating new employment opportunities.

Three constraints to improving the functioning of the labor market so as to increase employment opportunities for low income families have been identified. First, there is an information constraint; statistical data showing overall current and project labor market demand by occupational speciality are lacking; the poor do not know about available jobs; and employers are unaware of qualified target-group members available to fill existing jobs. The Project will address all three aspects of the information constraint. The Ministry of Labor's capacity to study labor market conditions and identify short and long range demand for workers will be improved.

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<sup>2/</sup> The nucleo is an area which contains one or more of the 90 worst slums (tugurio) in the Metropolitan Area. The choice of nucleos instead of tugurios as the target areas is largely to facilitate the planning and execution of infrastructure and housing projects.



The knowledge of target group members and businessmen about the Ministry of Labor's Employment Service will be increased.

The second constraint is that many target group members do not have the occupational skills required to fill actual job vacancies. This constraint will be addressed by providing several types of formal and apprenticeship training programs which respond to the individual worker's interests and capabilities as well as to identified employment opportunities.

Third, there are not enough jobs which target-group workers can fill. This obstacle will be dealt with by creating additional employment opportunities through the expansion of small, labor intensive industries in the Metropolitan San José Area.

a. Increasing the Labor Supply

i. Forecasting Job Vacancies and Training Needs

The Ministry of Labor (MOL) receives data on labor demand from several sources. Field workers from the MOL's Employer Relations Unit regularly visit larger firms in the Metropolitan Area and receive requests for workers to fill specific vacancies. However, the Ministry's Labor Migration Unit often gets requests for approval of work permits for non-residents. These requests are justified by the claim that there are not enough skilled local workers available. The Ministry's Sectoral Planning Office intends to carry out a survey of businesses every six months on which to base estimates of actual labor demand as well as requirements for 2 to 3 years ahead. <sup>1/</sup> This information and other data will be used by the GOOCR as a basis for recruiting and placing skilled workers who are ready to fill existing vacancies (by the MOL); as well as for advertising, recruiting, and training workers in specific areas of short supply (MOL and INA).

The MOL has recently started estimating overall labor demand, and recognizes that its capacity in this area needs to be improved. The United Nations is currently providing technical assistance to the Ministry's Sectoral Planning Office. The

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<sup>1/</sup> The Establishments Survey referenced earlier is a prototype of this survey.

Ministry also plans to hire 6 additional technicians experienced in manpower planning and statistics. This will enable the Department of Information and Studies of the Ministry of Labor's Sectorial Planning Office to determine current job vacancies and skills requirements in specific occupational categories, and to forecast medium term (2 years) demands. The Department will conduct and analyze the results of industry establishment surveys which will be carried out at six-month intervals over the life of the project. These formal surveys will complement continuing efforts of the Employment Service's field staff, who will be in direct contact with metropolitan employers regarding current job vacancies and occupational skills required to fill these jobs. The AID loan will finance (1) 2 person months of technical assistance to help design the surveys, and train department staff who will be responsible for organizing and supervising survey activities, and analyzing survey results (\$10,000); (2) office furniture and equipment (\$2,500) and (3) the operating costs of carrying out the two surveys to be conducted during the first year (\$30,000). The GOCR will finance all full-time staff costs (\$107,000) and the remaining four surveys (\$60,000) to be conducted during the life of project.

ii. Contact Referral and Placement

The Institute for Social Assistance (IMAS) administers a wide range of poverty programs and has direct contact with the poor. Direct contact is accomplished mainly through sixty social workers. 28 of these are stationed in five IMAS centers in the Metropolitan Area. Other organizations, such as the National Community Development Agency (DINADECO) and the Federation of Voluntary Agencies (FOV), are also active in communities with high concentrations of poor residents.

Under the Project, outreach personnel from IMAS will seek out unemployed and underemployed workers and refer them to the Ministry of Labor (MOL) office in the nearest IMAS center. Field workers from DINADECO and FOV, in the course of their normal activities, will also refer job seekers to IMAS. The Ministry of Labor's National Employment Service will station an interviewer at each center. The interviewers will assist job candidates in preparing employment applications and will review the documentation required of all applicants.

Copies of the completed applications of workers with skills and experience will be forwarded to the MOL's

Placement Office. This office will receive requests for workers from the Service's Employer Relations Unit and match these requests to job applications. Up to three applicants will be selected for each request. The vacancy will be discussed with the applicants, who will be referred to the employer if they are interested in the position. After referrals have been completed, the Placement Office will notify the Employer Relations Unit, which will follow up to see if the job was filled. The applications of unsuccessful candidates will be kept on file for future referrals. It is anticipated that up to 2,000 workers who already possess adequate job skills and experience will be placed immediately without training.

Job applicants having no marketable skills or experience and those who want to advance to a better job will be referred by the interviewer to the Service's Occupational Orientation and Testing Unit. This Unit, which is to be created under the Project, will assess the skills and employment potential of unskilled workers. The applicant's job interests will be discussed, proficiency (e.g. mechanical, secretarial, accounting) tests will be administered where applicable, and a psychological evaluation carried out. Up to 6,000 applicants who have the aptitude for and interest in learning semi-skilled and skilled jobs will be assisted by the MOL's Training Coordination Unit in obtaining training from appropriate training institutions such as INA, or will be placed in one of the MOL's apprenticeship programs.

A third group of applicants - the physically handicapped - will be assisted through the Service's Rehabilitation Unit. The Unit will attempt to persuade employers to hire these disadvantaged, and if necessary, to redesign job requirements to accommodate them. The handicapped without marketable skills will be referred to other institutions for rehabilitation training prior to placement.

To enable IMAS to carry out its worker identification, follow-up, and administrative functions, it will have to supplement its social work staff by 15 persons (3 assigned to each of the zonal offices), and supply and equip the offices to be occupied by the Employment Service. The GOCCR's counterpart contribution will finance personnel, office supplies, and support costs for IMAS staff increments. Loan funds will be utilized for office equipment and furniture, office remodeling, and 5 vehicles for the zonal offices.

The Employment Service's referral and placement activities will have to be considerably expanded to enable it to focus its efforts on the urban poor. The organizational structure of the MOL will also be modified to integrate the activities of several new technical units which will be responsible for carrying out MOL's training coordination and occupational orientation and testing functions. The GOCR counterpart (\$618,000) will finance personnel and operational support costs for a total of 23 additional staff in its Placement Unit, Employer Relations Unit, Occupational Orientation and Testing Unit, Training Coordination Unit, and its Special Service Unit for the Handicapped. Given the staff increases and inadequacy of current office furniture, equipment and transportation facilities, loan funds will be utilized to purchase office furniture and equipment for these units (costs \$50,000) and 3 vehicles for the job identification and placement activities (cost \$21,000). Loan resources will also be utilized for technical assistance and training as follows:

- 4 person-months of consultant services for the establishment of the Occupational Orientation and Testing Unit and training of its staff (cost \$20,000).
- 6 person-months of technical assistance to be provided by an Employment Service Specialist to advise the Employment Service Chief on the overall functioning of all its units in relation to the Program's employment targets for the Project (cost \$30,000).
- 2 person-months of technical assistance to conduct training for Employment Service Staff in interviewing techniques, advise on ways to expedite the documentation process for job applicants, and advise on the maintenance and use of applicant records (cost \$10,000).
- 3 to 5 local short-term training courses in such areas as coordination of training and placement, determination of skills required for job vacancies, placement of the handicapped, etc. (cost \$20,000).

- 12 person-months of visits by key Employment Service staff to observe the functioning of employment services in other countries (cost \$30,000).

### iii. Training

Of the 8,000 target group workers to be placed through the Employment Service under the project, it is estimated that about 6,000 will require training. Applicants having the aptitude and interest in receiving training will be assisted by the MOL's new Training Coordination Unit, which expects to place approximately 3,000 applicants in its own apprenticeship training programs, and another 3,000 in INA courses.

#### (a) Training On-the-Job

The Apprenticeship Office of the MOL runs a small program under which it approves less than minimum wage employment contracts for semi-skilled positions. Collaborating businesses hire beginning workers for periods of up to a year. Contracts vary from two to 12 months based on the training time required. Periodic pay increases are provided if progress is satisfactory. The contracts specify that the worker, upon successful completion of the training period, will be offered a full time position paying at least the minimum wage. Minimum wages set by the GOCR vary by occupational category. Approximately 850 workers received apprenticeship training in 1976. The fields in which this training took place are shown in Table 3. In general, these are semi-skilled jobs which are easily learned in a few months.

The Ministry has approached entrepreneurs in the needle trades and other areas to gauge their interest in more on-the-job training. Their representatives indicate that the apprenticeship program shows promise as an effective way of promoting the utilization of labor as well as an efficient training mechanism. The program has not expanded because few employers know about it. To date the MOL has not publicized the program, but simply has responded to employer's requests for contract approval. Under the Project the Apprenticeship Office will carry out a promotional campaign among employers, and expects to place over 3,000 target group workers in the in-service training program over the life of the Project. An illustrative training plan is shown in Table 4. This plan was based on the Establishment Survey's find-

TABLE 3  
On-the-Job Training  
1976

<u>Occupations</u>	<u>TOTAL</u>
TOTAL	852
Industrial Sewer	676
Machine Operator - Shoes	28
Machine Operator - Textiles	53
Assistant Auto Mechanic	3
Store Clerk	4
Industrial Mechanic	8
Wood Worker	3
Electronic Apparatus Assembler	6
Assistant Graphic Artist	1
Library Assistant	6
Bookkeeper	1
Hardware Store Clerk	2
Office Clerk	1
Mold Maker - Asbestos Cement	5
Painter - Furniture Finishing	1
Operator of Offset Printing Equipment	3
Assistant Industrial Technician	2
Electronic Repair	4
Salesman	1
Production Worker - Various Industries	44

TABLE 4

Apprenticeship Program  
Low Income Neighborhoods  
National Employment Service (SENE)

<u>Occupation</u>	<u>Length</u>	<u>Number of Participants</u>
Industrial Sewer	4-month	1,200
Assistant in Electronic Repairs	6-month	100
Assistant Auto Mechanic	9-month	75
Industrial Machine Mechanic	12-month	45
Furniture Factory Worker	8-month	100
Store Clerk	2-month	500
Pharmacy Clerk	6-month	60
Hardware Store Clerk	4-month	60
Library Assistant	3-month	60
Assistant Printer	6-month	45
Book Binder	6-month	45
Metal Machine Operator	8-month	75
Cook	6-month	45
Industrial Textile Machine Operator	3-month	300
Machine Operator - Shoes	3-month	200
Machine Operator - Various	6-month	90
TOTAL PARTICIPANTS		3,000

ings on actual and projected job vacancies.

In order to administer the increased volume of on-the-job training and provide better follow-up supervision of trainees, the apprenticeship training section of the Ministry of Labor's Training Coordination Unit will add four employees. GOCR counterpart of an estimated \$100,000 will finance the staff increment and related support costs. Loan funds will be utilized to purchase one vehicle (\$7,000), and to provide 6 person-months of technical assistance to the unit in the planning and supervision of on-the-job training courses (estimated cost of \$30,000).

(b) Training at INA

The National Training Institute (INA) currently carries out training programs in a wide variety of subjects areas through five permanent centers located in different areas of the country, through mobile units, and through collaborative agreements with private businesses. Its administrative center and main training facility is located in San José. An additional training center has been built in one of San José's poor neighborhoods, and a third San José facility is under construction. Approximately 40% of the Institute's training programs are being carried out in the Metropolitan Area. The types of courses offered in the Metropolitan Area, the number of 1977 graduates, and programmed efforts for 1978 are shown in Annex II-C.

INA offers four types of training programs: skills, in-service, formative, and rehabilitation. Skills training is normally provided through a three-year work/study program for 15-20 years olds in areas such as furniture making, electricity, automotive mechanics, general and agricultural mechanics, heating and plumbing. Formative training is offered at the semi-skilled level in areas such as construction, welding, industrial sewing, tailoring, and auto and industrial mechanics. In-service training also is offered to those already employed to improve their performance. Most of INA's courses fall into this category. Rehabilitation training for handicapped target group workers has been limited to industrial sewing and cabinet making, but a modest expansion of this program is anticipated. A summary of INA's countrywide training program for 1978 is outlined in Annex II-C.

INA uses a modular instructional system for training. This system was introduced in 1975 with the as-



sistance of the ILO as a pilot program for Latin America, and is now being incorporated into all aspects of INA's regular training programs. Under this system, students initially learn entry level skills in an occupational speciality -- e.g., electrical skills. Time required to complete this basic training varies with the complexity of the subject matter. Upon terminating the first phase of the program, students can either find employment at the occupational level for which they have qualified, or continue their training to qualify them for higher level jobs.

Under the Project, the training programs to be carried out by INA will be flexible, in order to meet differing individual requirements. Most of the trainees are expected to be relatively young persons (15-25 years), with some source of support (i.e. parents, relatives). They may wish to enter a training course immediately, or wait until courses of special interest to them are available. Others will have family responsibilities and will need training right away. Still others will be holding part or full time jobs and will require courses that are offered at odd hours or closer to home. For target group members who are not be able to take training courses without financial assistance, IMAS will provide them a monthly maintenance allowance of up to Ø400 while they are enrolled in the program.

It is estimated that 3,000 target group workers will receive basic and occupational skills training over the life of the project which will qualify them for productive employment. To plan and conduct training for the estimated 3,000 trainees under the Project, INA will require a budget increment of \$580,000 to be financed from counterpart resources. These funds will finance contracts for instructors (estimated equivalent of 20 person/year), training materials, rental of training facilities, and other operational costs. An additional \$150,000 in counterpart contribution will be provided by IMAS for subsidies to selected participants while in training.

Loan funds will only be used for the purchase of training equipment (estimated at \$330,000). Equipment needs were determined on the basis of the number and type of courses to be carried out in the first year, the increased numbers of courses and introduction of new types of courses in subsequent years, and the average useful life of different types of equipment. The types of equipment to be purchased include such items as industrial sewing machines, carpentry tools and woodworking machines, soldering equipment, machine maintenance and metal working equipment.

SUMMARY BUDGET  
(Thousands of Dollars)

SUPPLY OF LABOR

	<u>A.I.D.</u>	<u>GOCR</u>	<u>TOTAL</u>
1. <u>Forecasting Job Demand</u>			
Technical Assistance	10.0		10.0
Equipment/Furniture	2.5		2.5
Surveys	30.0	60.0	90.0
Operational Costs	_____	<u>107.0</u>	<u>107.0</u>
Sub-Total	<u>42.5</u>	<u>167.0</u>	<u>209.5</u>
2. <u>Contact, Referral and Placement of Workers</u>			
a. Finding and Assisting Job Applicants (IMAS)			
Vehicles (5)	35.0		35.0
Office furniture/equip.	11.0		11.0
Office Remodeling	10.0		10.0
Operational Costs	_____	433.0	433.0
b. Contact, Referral and Placement (MOL)			
Vehicles (3)	21.0		21.0
Office furniture/equip.	50.0		50.0
Technical Assistance & Training	110.0		110.0
Operational Costs	_____	<u>618.0</u>	<u>618.0</u>
Sub-Total	<u>237.1</u>	<u>1,051.0</u>	<u>1,288.0</u>
3. <u>Job Training</u>			
a. On-the-Job (MOL)			
Vehicles (1)	7.0		7.0
Technical Assistance	30.0		30.0
Operational Costs	_____	100.0	100.0

	<u>A.I.D.</u>	<u>GOCR</u>	<u>TOTAL</u>
b. Institutional Training (INA)			
Equipment	330.0		330.0
Operational Costs		580.0	580.0
Worker Subsidies	<u>        </u>	<u>150.0</u>	<u>250.0</u>
Sub-Total	<u>367.0</u>	<u>930.0</u>	<u>1,297.0</u>
ACTIVITY TOTALS	<u>646.5</u>	<u>2,048.0</u>	<u>2,694.5</u>

b. Increasing the Demand for Labor

i. Small Industry Development

San José's labor force will increase by at least 60,000 persons by 1980. The natural growth of employment cannot be expected to absorb all of these workers, and the GOCR has recognized that new jobs can be created by: (1) stimulating the creation and expansion of small industries (industries with less than 20 employees) and (2) experimenting with alternative organizational structures capable of increasing employment such as worker-owned and operated firms (WCOFs).

Small industries have been selected because investments in this sector reach the greatest concentrations of urban poor. Small industries and the informal sector currently employ almost half of the employed labor force in the tugurios; they are located in areas accessible to tugurio residents; and capital investments tend to produce more jobs in small industry than in large industry. (See Section V.A.) However, in order to increase productivity and employment in the small industry sector, several constraints must be overcome. These constraints include lack of access to institutional credit, poor management, use of inefficient production technologies, and a lack of marketing skills and information.

The credit needs of small businessmen are not being met. Most small businessmen are unable to offer adequate collateral or guarantees, which limits their access to institutional credit.

As a result, 36% of the small industry credit demand is being met from private money lenders who often charge twice the rates applied to large industrialists. Expensive credit or no access to it limits the expansion possibilities of small industries.

The small entrepreneur is not accustomed to following standard business record-keeping and financial management procedures. The Ministry of Economy's Small Industry and Artisan Department (DGATPIA), has estimated that more than half of the requests for advice from small entrepreneurs are for accounting and financial management assistance.

DGATPIA has also found a high percentage of requests for technical assistance in manufacturing technology. It estimates that 50% of Costa Rican small industries have inadequate or inappropriate machinery and equipment, resulting in low productivity and high production costs.

A coordinated program of technical assistance, training and credit will address the technological, managerial and financial constraints which limit small industry expansion and increased productivity. Up to 900 entrepreneurs will receive technical assistance from DGATPIA. INA will organize and conduct up to 40 training courses for small businessmen in such areas as financial management, accounting and business administration. In addition, a series of banking reforms will be established to increase the access of small businessmen to credit; a guaranty fund will be created in the banking system to help neutralize the financial risks of lending to small producers; and up to \$5.8 million in credit will be provided to meet the anticipated credit demands of small industrialists.

(a) Technical Assistance

The Ministry of Economy's Office of Small Industry and Artisanry (DGATPIA) has been in existence for approximately two years. It helps small industrialists solve specific technological and management problems, and assists in the preparation of feasibility studies and loan applications. It also coordinates its activities with banking institutions and other small industry associations to facilitate the flow of information and credit resources to this sector. It processes requests for import tax exemptions, and performs regulatory functions for small industry. During 1977 DGATPIA's field personnel assisted over 77 small indus-

trialists prepare loan applications, provided over 161 technical consultations, carried out 15 feasibility studies for new product lines, and published 4 manuals for small entrepreneurs on accounting, export-import regulations and business management.

Under this project DGATPIA's small business extension program will be expanded. During these three years DGATPIA, will, with an additional staff of 36 field analysts, identify and register 1,000 small industrialists in the metropolitan area; complete work plans for 400 firms; provide technical assistance and follow-up services to 600 small industrialists; assist up to 970 firms obtain credit and investment guaranties from the commercial banking system; print and distribute a series of 25 easy-to-read instructional pamphlets; prepare 35 financial and technical feasibility reports on new products or production technologies; and give tax advice to 450 firms.

Identification of firms will take place in four ways: (1) through self identification, i.e. those coming to DGATPIA for assistance; (2) through referrals from the banking systems; (3) through INA surveys and contacts; and (4) from DGATPIA extension agents' personal knowledge of the areas they cover. Initial evaluations and plant visits will permit DGATPIA's field agents to develop work plans recommending a coordinated package of credit assistance, direct technical assistance and/or training for each firm.

When DGATPIA extension agents encounter technical problems in small firms which they cannot resolve, specialized assistance will be obtained from outside the agency. DGATPIA has collaborative agreements with other technical institutions (Center for the Study of Leather, the Soils Laboratory, Wood Laboratory, Technological Food Institute, and the Technological Institute of Costa Rica - ITCR). In addition to these research institutes, DGATPIA can utilize the services of large corporations under a program in which these corporations volunteer to provide technical assistance to small corporations.

In addition to direct technical assistance, DGATPIA will provide small businesses with feasibility reports indicating expansion possibilities. When promising domestic market information for new products is obtained, DGATPIA will contact likely producers to determine their degree of interest. It will then conduct feasibility studies to determine if producing the new item would be profitable and provide technical assistance when necessary. All

feasibility studies will be made available to the public free upon request.

DGATPIA will be responsible for assessing the financial and technical feasibility of subprojects; and for making credit recommendations to the National Banks participating in this program. While all small industrialists applying for credit will not need a credit recommendation from DGATPIA, National Banks will only provide credit guarantees to small industrialists who have been recommended for credit approval by DGATPIA's extension agents. The recommendations will require site visits and a technical and financial analysis of the small industrialists plans for the borrowed money.

This more intensive and expanded program of DGATPIA will require greater financial and technical support to DGATPIA by the GOCR and other international donor institutions. DGATPIA will have to hire and train an additional 36 individuals, and obtain increased budgetary support for larger projected operating expenses. It will draw extensively upon the technical assistance currently being provided to the Ministry of Economy by the United Nations, Israel, and Holland. It will also increase its use of collaborative agreements with technical back-up institutions.

DGATPIA is confident that it can meet most of its training requirements; it only requires one long-term technical advisor in metallurgy. DGATPIA already can draw upon in-country expertise, and is currently receiving technical assistance in the other priority areas of agro-industry, wood working and textiles. Because the Mission considers DGATPIA's activities critical to the success of the Employment Generation Component, an evaluation of DGATPIA's performance will be carried out early in the second year of the project. The GOCR and AID will provide DGATPIA with increased technical assistance and training if early evaluations and small business failure rates indicate a weakness in DGATPIA's institutional capacity to perform its required functions.

AID support to this project activity will include limited financing for technical assistance, equipment and materials, vehicles, publications and building renovation. With an increased field staff of 36, DGATPIA will require an additional six vehicles (\$48,000), various types of office equipment (books, desks, chairs, calculators, typewriters, etc. - \$33,000) and office renovation (\$6,000). To increase DGATPIA's technical capability, AID will finance the services of one technical advisor in metallurgy for 2

years (\$100,000) and fund up to four person-months of specialized short-term assistance (\$20,000); AID will also finance the costs of up to 6 person-months of specialized in-country training in the area of financial analysis (\$17,500) and the projected publication costs for 25 instructional pamphlets for small industrialists (\$20,000).

(b) Training of Businessmen

To address identified entrepreneurial constraints of small industrialists, INA proposes to reinforce the technical assistance efforts of DGATPIA's field staff by conducting a series of courses in business management and accounting, production technology, (plant layout, work plan analyses and quality control) employee relations, and marketing. INA has already prepared the instructional objectives and lesson plans in module units for a number of these courses. INA plans to conduct training courses in geographic zones with high concentrations of small industrialists. After canvassing the zone to make contact with the small industrialists, and conducting a participant survey, INA will determine what courses to give and what modules to use. When the participant survey indicates the need for course work in how to apply for credit, for example, INA can draw upon the services of experts from the National Banking System to give the course. When the need is for courses in technical areas, INA calls upon the Costa Rican Technology Institute (ITCR). DGATPIA will also give a series of classes.

In order to keep attendance high and to make the courses as relevant as possible to the problems of small businessmen, INA will, to the extent feasible, group participants from the same industry and use a successful small industrialist from that industry as one of the instructors. Courses will be conducted during hours convenient to the participants and will be geared towards those not accustomed to long hours of lectures. Class sessions will be mixed, with lectures combined with site visits where instructors can demonstrate to the owners how to apply class lessons to daily operations.

Over the life of the project, INA plans to conduct 40 courses for up to 800 small industrialists. The average course will run 12 weeks (108 hours) and be given to 20-25 participants by 4 or 5 instructors. INA has had experience with this program in two towns in the Central Valley and is currently running a pilot program in San José. Based on these experiences, INA has calculated the personnel and equipment requirements to permit an ex-

pansion of its training activities under this Project at \$250,000. INA will use the GOOCR's counterpart resources to hire and train 7 additional full-time staff members, conduct participants surveys and finance in-country and third country travel. Under this Project activity, \$15,000 in AID loan funds will be used to finance shop and audiovisual equipment to complement INA's training efforts.

(c) Credit

As noted earlier, the major impediments to the flow of credit to small industry are the inability of small entrepreneurs to offer required collateral, their lack of technical skills to prepare loan requests, and the Banking System's inability to respond to the needs of small industrialists with an efficient and easily managed credit program.

The small businessman's lack of technical skill will be addressed through the aforementioned training and technical assistance programs. His lack of collateral and the SBN's inability to respond to his credit needs will be addressed through a series of banking reforms. To assure the fulfillment of these reforms and to guarantee sufficient funds to meet the increased credit demand expected to result from these reforms, training and technical assistance efforts, AID will allocate up to \$2.5 million in loan funds and the GOOCR will provide \$3.3 million for small industrial credit. Sub-loans will be made at 8% for up to 8 years, with a one-year grace period for fixed capital, and for up to 2 years with a six-month grace period for working capital. The provision of AID resources for credit will be contingent, however, on the implementation of the following reforms:

(1) Guaranty Fund

In preparing for the Urban Project, an Inter-Bank Commission proposed that the Central Bank manage, under a trust agreement, a guaranty fund of \$2 million for small industrial credit in San José. Recognizing the similarity of the Commission's preliminary design to the AID supported Productive Credit Guaranty Programs (PCGP) in four other Latin American countries, the Mission suggested that the GOOCR consider using the PCGP to fill the guarantee fund requirement for the Urban Environment Loan. After preliminary study and discussions with Mission and AID/W technicians, the GOOCR requested the establishment of a PCGP in Costa Rica.

If approved, AID would allocate \$3 million in PCGP funds to be supplemented by an additional \$3 mil-



lion by the GOCR banking system. The GOCR will initially commit itself to a \$3 million contingent liability under the PCGP and agree to increase its liability if the original \$6 million fund reserves are insufficient to cover losses on sub-loans made under the Urban Environment Loan.

The portfolio of sub-loans which can be covered under the PCGP cannot be determined in the absence of an actuarial base which currently does not exist. However, actuarial data will be developed as the PCGP program progresses. The current small industry loan losses of less than 1/2 of 1% indicate the possibility of extensive leverage, and the fund's credit guaranties could exceed the value of the funds resources by a ratio as high as 5 to 1 within the next 3 to 5 years. This leveraging of the fund's resources would permit faster capitalization of the fund and would obviate the need for additional support by the GOCR and AID.

The system design for Costa Rica will follow the technical characteristics of other PCGP systems in Bolivia, Nicaragua, Paraguay and Colombia. These models permit effective application of risk management principles and can insure system reliability and financial self-sufficiency.

Given the relatively "high risk" nature of the sub-projects to be financed under the project, the Mission proposes to make the existence of the PCGP or a similar credit guaranty fund mechanism a condition precedent to disbursement of loan funds for sub-lending to small industrialists.

## (2) Information and Promotion

The Central Bank will promote its small industry credit program through the mass media and through DGATPIA field agents who will provide businessmen with information on the availability of credit and sources of technical assistance and training for small and artisan industrialists. In addition, the PCGP or any alternative guaranty system which is introduced, will also require operating manuals for eligible lenders, a handbook for the technical advisors from DGATPIA and a handbook for the Central Bank. These documents will contain information on who qualifies for credit, the objectives and terms of the loans, the steps to take in applying for credit, the functions of the technical advisors, examples of credit applications and financial reports which should ac-

company the applications, and instructions on how to fill out the applications and carry out technical and financial feasibility studies.

(3) Standardization and Simplification of Loan Applications Procedures and Documentation

The Inter-Bank Committee has adopted a single application form for use by the entire SBN. The form is simple and short. The accompanying financial report has also been standardized and will be used by all SBN banks and the Ministry of Economy.

(4) Systematic Use of the Ministry of Economy as a Technical Assistance Agency

The expansion of services offered by DGATPIA of the Ministry of Economy will make it possible for the small industrialists to base their credit requests on well-done technical and financial studies, thereby reducing bank workloads. The Inter-Bank Committee has also designed a reference form (boleta de referencia), which will accompany all credit applications. This form will be filled out by the person to whom the small industrialist delivers his initial credit request. The "boletas" to be sent directly to DGATPIA, will contain basic information on the applicant, the status of his business, and the credit request which he is presenting to the bank. Thus far the SBN has financed one hundred percent of those loan applications which have been accompanied by a DGATPIA study. Under the reforms proposed in this Project, the GOOCR hopes to maintain this high record of acceptance by the individual banks. This, however, will require substantial expansion of DGATPIA's technical staff and budget to which the GOOCR is committed under this project.

(5) Eligibility Criteria for Sublending Under Small Industry Fund

The SBN has modified its definition of small and artisan industry. These firms are now defined as those which employ less than 250,000 (\$30,000) in fixed capital and machinery, and use simple production technology. This definition will be adopted by the Ministry of Economy, the National Apprenticeship Institute, and other agencies to determine which small

industries qualify for assistance under the Project.

In addition, AID and the GOCR will establish as a condition precedent to sub-loan disbursements for the credit component, a set of eligibility criteria, acceptable to AID, for allocating credit funds to small industrialists. These criteria will require that eligible firms:

- have maximum assets of less than \$30,000 in fixed capital;
- have a maximum capital per job ratio of under \$4,000;
- be located in the San José Metropolitan Area;
- lack collateral or have no access to other institutional forms of credit;
- have a technically and financially sound use for the credit;
- have the owner of the firm work full time in its operations;
- maximum sub-loan amount to an individual firm will not exceed \$15,000.

(6) Increase in the Supply of Credit and in the Profitability of Small Industry Lending

In order to further encourage the commercial banks to lend to small and artisan industrialists, the Central Bank is increasing the spread on funds to be loaned by the SBN to small industries from two to at least three percentage points. This will reduce (or in some cases eliminate) the differential earning rates on small and large industry credit. In addition, all sub-loans to small industrialists will carry with them credit guarantees, thereby neutralizing risks to the commercial banks of loans made to small industrialists. Finally the credit "topes" will remain as

minimum floors which the banks will be encouraged to meet, not maximum ceilings. These funds will also be "earmarked" for small industry lending, and cannot be sub-loaned for any other purpose.

ii. Worker-Owned and Operated Firms

The GOOCR has expressed its desire to promote the creation of worker-owned and operated firms (WOOFs) producing for export under this Project. After reviewing the economic feasibility of producing a number of selected products for export, AID is prepared to finance the creation of up to three WOOFs as an experiment to determine if the worker ownership concept is organizationally feasible and if these firms can return to the worker-owners an adequate wage and profits.

Loan funding will provide credit and technical assistance to the three WOOFs. A government institution, most likely the Instituto Tecnológico de Costa Rica (ITCR), will oversee the establishment and management of the WOOFs. The SBN will administer the credit. The functions of the supervising institution will be to: (1) contract for management of the WOOFs with a qualified Costa Rican consulting firm or other established business entity; (2) provide technical assistance to the WOOFs as needed; and (3) evaluate the experiment after an adequate period of observation. If the firms are successful, the final evaluation will include a recommendation for promoting a much larger number of WOOFs.

The first step in the experiment will be for the supervising institution (ITCR) to produce a detailed plan describing the legal and social structure of the three WOOFs and the necessary steps for their creation and operation. The preparation of a detailed plan would require three or four man-months of technical advisors at an estimated cost of \$20,000.

The detailed plan would carefully explain the legal and social structure of the WOOF, procedures for its creation and the transfer of ownership to the workers, the obligations of the worker/owners, and the functions of management. The following description of these four topics assumes that the WOOFs will take the form of a Sociedad Anónima (S.A.), a widely used business structure which seems appropriate for the WOOFs. Other forms of business organizations may be considered in the Project as well.

(a) Legal and Social Structure of the WOOF

AID considers it essential that the responsibility and risk of being an owner be represented by well-

established financial documents such as stock certificates. The design of the legal and social structure of the WOOFs should establish a method for the distribution of profits on the basis of risk-taking. While the legal and social structure of the WOOFs can allow the worker/owner to pay others for the services of organizing land, labor, and capital, it cannot allow them to stop being risk takers.

(b) Transfer of Ownership

The National Banking System has committed itself to loaning the three WOOFs 100% of their venture capital needs. The SBN is taking all the financial risk in the initial stages of WOOF operation and may hold the shares in trust until the business has generated enough retained earnings to pay-in the subscribed equity capital and allow the transfer of ownership to the workers.

The SBN and the supervising institution would determine the value of the S.A.'s stock. For example, they might base their decision on the amount of equity considered average for firms in the selected industry. If the average debt to equity ratio in the wood-working industry were 1.5 to 1, then a WOOF making captain's chairs which needed a \$337,000 long-term loan to start operating would be required by the SBN and the supervising institution to establish \$250,000 as the amount of equity capital to be earned and paid-in.

(c) Obligation of Worker-Owners

When the worker-owners are hired, they will subscribe to common stock with an assigned par value. Only workers will be allowed to hold subscription stock to be paid for by the profits of the firm. While the subscription is legally a note payable, the worker-owners will not face risk of loss since the Charter of the S.A. and the worker-owner contract will allow the subscribers to cancel their liability and return their subscription to the S.A. at any time. This precludes the SBN from attaching the incomes and savings of the worker-owners while their subscriptions are unpaid. Subscription will be paid from the profits of the firm with no set payment dates; this arrangement is legal in Costa Rica. Only after the stock is paid-in and issued will the workers have risk exposure, which is limited to the par value of the paid-in stock.

The Charter of the Sociedad Anónima would require workers to own at least 51% of the issued shares, with

each worker holding a specified minimum number of shares. Increasing the labor force would mean either issuing more subscriptions or asking the workers to sell to new employees shares which they hold in excess of the minimum number required. Decreasing the WEOF labor force would mean the retirement of stock or reacquiring it in the form of treasury stock. The remaining stock (up to 49%) may be: (1) offered to selected managers; (2) offered to the U.S. importing company in exchange for managerial and technical assistance; or (3) offered for sale on the Costa Rican Stock Exchange.

In addition to regulations in the Charter, worker-owners will be required to sign a contract upon being hired, in which they agree to: (1) use the selected management consulting firm for a specified period; and (2) not have any voting or dividend rights until all the subscription capital is paid-in. (W means that they agree to use the profits to pay in capital as rapidly as possible.)

(d) Management of Worker-Owned and Operated Firms

Each WEOF is expected to have a management consultant team of three individuals for three years at a cost of about \$50,000. Their tasks will be to: (1) prepare a detailed feasibility study covering all phases of the enterprise's operations, including preliminary commitment for financing from the SBN, and letters of intent from U.S. firms expressing willingness to buy its products; (2) obtain certain wood products indications of interest have already been obtained by an AID consultant; (3) form a Sociedad Anónima on a WEOF; (4) arrange for manufacturing facilities; (5) obtain 100% financing from the SBN; (6) purchase and install the necessary equipment; (7) hire the worker-owners; (8) obtain firm orders from U.S. buyers; and (9) provide continued production and financial management and marketing services to the WEOFs.

AID has decided to experiment with up to three WEOFs to allow for some comparison in various industries, markets and management techniques. Since they will be producing primarily for export to U.S. markets, the intended areas of production by each WEOF will be subject to approval by AID. Proposals in areas with depressed labor markets, such as the textile industry, will be excluded from AID assistance. Based on a prefeasibility study done for a WEOF making captain's chairs (see Feasibility Analysis - Worker Owned and Operated Firms: Section V.C.), AID and the GOCR have estimated the need for \$1 million dollars in credit and \$554,000 in technical assistance. Since a firm producing captain's chairs will require an estimated \$377,000 for investment and operating costs, an amount considered to be the maximum capital required for any of

the three WOOFs, \$1 million will be sufficient to meet the credit requirements of the three firms. The technical advisors are estimated to cost \$450,000. \$104,000 has been budgeted for the supervising agency (ITCR) to cover the costs of developing a working organizational model for the WOOFs and contingencies.

SUMMARY BUDGET  
(Thousands of Dollars)

DEMAND FOR LABOR

	<u>A.I.D.</u>	<u>GOCR</u>	<u>TOTAL</u>
1. Small and Micro Industry			
a. Technical Assistance (DGATPIA)			
Technical Assistance	120		120
Training	17.5		17.5
Equipment	33		33
Vehicles	48		48
Publications	20		20
Building Expansion	6		6
Operating Expenses		750	750
b. Training (INA)			
Equipment	15		15
Operating Expenses		250	250
c. Credit			
Credit	2,554	3,300	5,854
d. WOOF			
Credit	500	500	1,000
Technical Assistance	500		500
TOTAL	<u>3,813.5</u>	<u>4,800</u>	<u>8,613.5</u>

## 2. Shelter and Infrastructure Improvement

The proliferation in San José of "tugurios", areas of dilapidated housing, generally with sub-standard or non-existent infrastructure and public services, has been of increasing concern to the GOCR. There are over 100 tugurios in the Metropolitan Area. Most are located in the 19 target nucleos. As noted in the Urban Assessment, 78% of the tugurios' residents live in "poor" or "fair" housing, versus 35% of the residents of metropolitan San José. 32% of tugurio dwellings are overcrowded, versus 15.5% for the Metropolitan Area. While the supply of essential public services (water, sewage, electricity) to tugurios is similar to the rest of the Metropolitan Area, there are significant differences in whether the services are used individually or collectively. In 1977 INVU studied the public services infrastructure requirements of two of the 19 target nucleos, and estimated the cost for upgrading them to acceptable standards to be \$1.2 million.

Although Costa Rica has competent institutions providing shelter and infrastructure services in urban and rural areas, they do not focus directly on the needs of the urban poor, nor do they coordinate the delivery of their services. The Project will promote an integrated, coordinated approach using DINADECO (community organization), INVU (housing construction), and IFAM (municipal development) to implement and institutionalize four different shelter programs directed at the urban poor: sites and services, community upgrading, home improvement, and land title registration. The cost of these programs will be borne by the beneficiaries, with repayments used to finance similar projects for other areas and other low income families.

The financing for this program will be provided by a \$11.4 million Housing Investment Guarantee, a GOCR counterpart contribution of \$3,680,000, and up to \$426,000 of AID loan funds. Up to \$2 million in HIG advances will be available to finance construction. The Borrower for the HIG will be the Ministry of Finance, acting on behalf of the Government of Costa Rica. The Implementation Agreement will be signed by the INVU, IFAM, DINADECO, and the Ministry of Finance. The HIG Loan Agreement and a Contract of Guaranty to be subscribed by Costa Rica require ratification by the GOCR Congress. Cost details for the various program options are presented in Annex II.E; an analysis of the ability of the target poor to pay for these options follows in Section V.D.



- a. Shelter Improvement (\$8.4 million - HIG;  
\$680,000 - GOGR)
- i. Sites & Services (\$5,390,000 - HIG;  
\$680,000 - GOGR)\*

An estimated 2,000 families, including those who are to be relocated, will be offered this option. Project sites will be selected by INVU and the municipalities. DINADECO through its outreach efforts will orient potential buyers, organize them into associations, and assist INVU in promoting self-help construction. INVU will be solely responsible for project design, and for construction bidding, supervision, and acceptance. Two plans will be offered: the simplest, serviced lots with sanitary core on which the buyer can quickly construct a temporary shelter which may be improved over time; and serviced lots, sanitary core, and a basic house. INVU will carry out credit checks, administer the collection of mortgage payments, and give technical guidance to families expanding their shelters on their own.

- ii. Home Improvements (\$2,860,000 - HIG)\*

DINADECO, as part of its outreach function,

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\* Inflation Allowance: Original project analyses were based on the assumption that construction would start in January, 1978. Costs of sites and service solutions, both with a sanitary core and with a minimum core unit, were calculated as of September, 1977. (See Annex II.E.)

It now appears that construction will start one full year later, in January, 1979. During that period inflation will add between 15 and 20% to unit costs. Thus, proposed financing has been increased for sites and services from \$4,350,000 to \$5,390,000 and for home improvement loans from \$2,460,000 to \$2,860,000.

In addition, a provision for an annual rate of inflation of 15.6% is maintained for the life of the project for the sites and services solutions. Under this assumption, the most costly unit, to be produced in July, 1981, would require a family income of approximately \$240 per month, which would represent families in the 45th income percentile in San José, given current income levels.

will also inform homeowners that funds are available through INVU to finance home improvements. INVU will set up a technical assistance unit to inspect the applicants' house and suggest improvements, review proposals and inspect completed work. About 3,000 home improvement loans will be made to eligible tugurio residents and low income families in other sections of the Metropolitan Area. The work will be performed by small contractors. Credit checks, disbursements, and collections will be administered by INVU's financial office. It is estimated that approximately 3,000 loans will be made during the life of the project.

iii. Land Purchase and Titling (HG \$150,000)

In this experiment DINADECO and the Neighborhood Associations it deals with will look for opportunities for squatters or renters to buy the land they occupy. INVU will provide financing for legal services for 400 title registrations, as well as financing for 100 land purchases. The selection of credit recipients will reflect the various land tenure problems which would be confronted in a full-scale titling and lot purchase program; and provide the GOOCR practical experience in dealing with different kinds of solutions.

b. Community Improvements (\$3 million - HIG; \$3 million - GOOCR)

IFAM will create a \$6 million fund to finance infrastructure projects in the 19 target neighborhoods. The Community Development Associations will be assisted by DINADECO in preparing proposals -- water and sewer systems, paving, drainage, lighting, etc. -- for municipalities to submit to IFAM to study and, if acceptable, to finance and supervise. The construction will be performed by contractors, except for those involving water and sewage which will be carried out by AyA (Water & Sewage Authority). These projects will be paid for through a valorization system, with assessments on individual beneficiaries. IFAM will provide technical assistance to the municipalities in determining appropriate levels of assessment which are affordable by the poor. IFAM will also finance community improvements associated with INVU's efforts under the "land purchase and titling" component of this Project.

IFAM projects within the 19 nucleos will be selected on the basis of the impact of the site improvements on low income families. The projects will all be located in areas designated as deteriorated by the GOOCR. Preference will be given to those projects which affect the largest percentage of low income families and improve the health and safety conditions of the target area. There are an estimated 9,000 eligible families in these areas.

Community infrastructure projects to be located in the tugurio areas of the nucleos, where 64 percent of the family incomes are below the 50th percentile (as established by a May 1977 household and adult survey by the Ministry of the Presidency), will be financed with equally matching GOCR and HIG funds. Site improvement projects which extend beyond a tugurio area (e.g. in order to connect into a sewer collector, water main or improved road), will be financed proportionately by HIG and GOCR funds on the basis of a household income survey to be performed in the areas affected by the improvements. The portion to be financed by HIG funds outside the tugurios on these types of projects will be determined by the ratio of low income families to the total number of families affected. The survey costs will be included in the projects. Community improvement loans will be extended to municipalities which will recover project costs through the valorization system.

Before construction starts, the valorization unit of IFAM will assist the municipality in establishing cost assessments for individual beneficiaries. The municipalities or AyA, as appropriate, will be responsible for cost recovery and will bill and collect quarterly using their existing systems, with assistance from IFAM. To carry out the valorization system, IFAM will establish a small unit within its Technical Services Department.

c. Technical Assistance and Training - Shelter  
(\$426,000 - DL Loan)

The proposed shelter and community improvement programs place a strong emphasis on coordination between the participating institutions, that is INVU, IFAM, DINADECO and the municipal governments of the San José metropolitan area. The Project purpose is to demonstrate the effectiveness of a such a coordinated approach to dealing with the living conditions in the tugurios.

Therefore, \$150,000 of the proposed loan-funded assistance will be used to provide a full-time, resident assistant project administrator, who will concentrate on promoting and encouraging inter-agency cooperation in the shelter and community improvement programs. The technician will also be qualified to provide guidance in the more technical aspects of project implementation, particularly to assure that project costs are minimized and that the solutions are affordable to the lowest possible income groups. Finally, the technician will assist RHUDO/ROCAP and USAID/CR in monitoring program implementation.

An additional \$15,000 in loan funds will finance three person months of short-term assistance to INVU to develop procedures that will assure maximum benefits to home improvement loan recipients.

IFAM will receive up to six person months in short-term technical assistance to help organize the unit which will advise the municipalities with regard to valorization. The four staff members of the unit will be offered, in addition, up to a total of two person-years of training in countries such as Colombia, where valorization is widely and effectively used. IFAM will receive \$70,000 in loan funds for this purpose.

Finally, DINADECO will receive twelve months short-term technical assistance to help promote and organize community development efforts within an urban context and to carry out in-country seminars. This will be complemented with training in such countries as El Salvador, which have successful community development programs, and with academic training in the U.S. for senior level personnel. The technical assistance and training will be financed with \$100,000 in loan funds. An additional \$101,000 will be used to finance the purchase of vehicles, and office and audiovisual equipment to support the expansion of DINADECO's metropolitan zone office.

	<u>A.I.D.</u>	<u>GOGR</u>
1. Home improvement loan program (INVU) Technical assistance (short-term ) 3 pm	\$ 15,000 <u>\$ 15,000</u>	
2. Community infrastructure cost recovery (IFAM) Technical assistance (short-term) y pm	30,000	
Participant training (out of country) 24 pm	30,000 <u>1/</u> \$ <u>60,000</u>	
3. Community development (DINADECO) Technical assistance (short-term) 6 pm	60,000	
Participant training (in & out of country) 18 pm	40,000 <u>2/</u>	

1/ Assumes four trips and average training of 6 months.  
2/ Assumes 6-month academic training for two persons and short two-month training workshops for up to eight persons.

	<u>A.I.D.</u>	<u>GOCR</u>
Equipment/materials	\$ 55,000	
Vehicles (6 vehicles/5 motorcycles)	46,000	
Operational costs		\$762,000
4. Assistant project coordinator-shelter 24 pm	<u>150,000</u>	
TOTALS	<u>\$426,000</u>	<u>\$762,000</u>

SUMMARY BUDGET  
(Thousands of Dollars)

SHELTER AND INFRASTRUCTURE IMPROVEMENT

	<u>AID</u>	<u>HIG</u>	<u>GOCR</u>	<u>TOTAL</u>
1. Shelter Improvements				
Site Improvements		5,390	680	6,070
2. Home Improvements		2,860		2,860
3. Land Purchase and Title		150		150
4. Community Improvement		3,000	3,000	6,000
5. Technical Assistance and Training	426			426
6. Operational Support	—	—	<u>762</u>	<u>762</u>
TOTALS	<u>426</u>	<u>11,400</u>	<u>4,442</u>	<u>16,268</u>

3. Urban Policy, Planning, and Project Administration

a. Policy

The Urban Assessment notes the absence of clear Government policies in several areas related to improving the productivity, incomes, and living conditions of the poor. While a legislative base for planning exists -- e.g., the Urban Planning Law of 1968, the National Planning Law of 1974 -- and elements of a

coordinated institutional structure are in place -- the National Urban and Regional Policy Council, OFIPLAN, and the nascent San José Metropolitan Department -- Government efforts to date have not reflected a satisfactory level of institutional coordination and efficiency, and they have not been effectively focused on the poorest elements of the urban population.

This Project will include the financing of studies intended to enhance the effectiveness of the Government's planning apparatus as well as improve the content and delivery of assistance for the poorest. OFIPLAN on its own or in consultation with other interested Government offices will select the subjects of study; will draw up the detailed scopes-of-work and carry out the procedures of contracting; will monitor the execution of each study; and will accept each study for the Government, certifying that payment is proper. Subjects of study will include the effect of current urban policies on the poor, and institutional changes which could improve the coordination and execution of projects. The Assessment recommended consideration of new GOCR policies in several areas relating to the supply and demand of labor: factor prices, the use of intermediate technology, and public assistance for the hard core unemployed. One specific topic to be studied is the long-term consequences of lending to small businesses at subsidized, below-market rates.

The Urban Sector Assessment also recommended the development of a policy for the shelter sector, in order to permit the more effective utilization of available financial and institutional resources. Despite the priority given to housing in the national economy, the number of agencies devoted to housing finance and production, and the accelerated pace of housing construction, there is no institutional mechanism to coordinate these activities and assure that all income groups are being served. The housing picture includes:

- Duplication of functions; institutions invest in housing without having defined priorities or goals;
- Lack of coordination for housing programs; various institutions have different interest rate, repayment, and subsidy policies which confuse potential beneficiaries and sometimes undermine the programs;

- Lack of consensus about the nature of the housing problem and how to measure it: each institution has its own definitions of housing deficit, deficient housing, etc. which impedes comparison and generalization; and
- Disagreement on interest rates or on which financial and credit systems ought to be used for the low income sectors.

To address these problems, Costa Rica needs to develop a national housing policy, implemented through a national housing plan, which establishes priorities at the national level, regulates public credit, promotes a more efficient use of the resources of state agencies, and coordinates the programs and activities of public and private institutions to assure that all income groups are reached by housing programs.

The GOCR appears to be willing to prepare a national housing policy and plan. For such a policy and plan to be valid and credible, they should be carried out by Costa Ricans. It is equally important that the process leading to their preparation involve maximum collaboration between agencies within the public sector and between the public and private sectors.

\$50,000 in loan funds are to be used to finance up to ten person months of technical assistance to advise on the proper methodology for developing a national housing policy. Such assistance will be provided over a two-to-three year period and will draw on recent experiences in Honduras and other Central American countries.

In support of this effort, an additional \$55,000 in loan funds would be available to finance studies on specific problems related to the shelter sector. For example, a policy study might be needed on the operation of housing finance in Costa Rica. Such a study could evaluate existing interest rate policies, the allocation and distribution of public financial resources destined for housing programs or the need to increase the degree of autonomy of the savings and loan system.

Development of appropriate policies in the above areas will require research and analysis. To assist the GOCR

in developing its capacity in these areas, funds for 10 persons years of participant training are also included in the Project. These funds will finance graduate training in U.S. and third countries in public policy analysis, and other fields related to the above areas.

b. Planning

A sizeable number of San José's poor live in a belt outside the Metropolitan Area including the secondary cities of Alajuela, Cartago and Heredia, smaller towns, and agricultural areas. The belt together with the Metro Area, is known as the Urban Agglomeration. The Urban Assessment did not sufficiently define the nature and extent of poverty in the Urban Agglomeration. A more in-depth study of poverty in this area will be financed under the Project, because an expansion of GOOCR activities in that zone is contemplated.

This Project will finance up to 39 person months of technical assistance to help the GOOCR analyze (1) the potential impact of employment and housing activities on the flow of rural poor to the city; (2) the degree and nature of poverty in secondary cities, including those in the Urban Agglomeration; (3) the relationship of urban poverty in San José to regional development and the growth of secondary cities, particularly those in the Urban Agglomeration; (4) the continued mobility of the poor within urban areas and their ability to take advantage of non-geographically targeted programs. The result should be a better definition of the target group, especially the distinctions between the hardcore poor who are dependent upon welfare transfers and the upwardly mobile poor who can take advantage of housing and employment programs.

c. Project Administration

The Project will be administered by a special unit to be established within the Presidency. An experienced and highly qualified Project Coordinator will be hired by the Presidency on at least a half time basis; he will be assisted by two full-time professionals and a small clerical staff. While organizationally placed within the Presidency, the Project Coordination and Administration Unit will be supervised by and be directly responsible to a high level Inter-Agency Coordinating Committee composed of key representatives of the major implementing agencies as well as the Ministries



of the Presidency and Finance and OFIPLAN. The Coordination Unit will be responsible for program planning and coordination. It will report on Project progress to the Inter-Agency Committee and advise that committee on the allocation and control of Project resources. Additionally the Coordination and Administration Unit will staff inter-agency sub-committees as needed to ensure proper coordination and program operations involving discrete functional areas (i.e. DINADECO, IFAM, and INVU for shelter program operations; MEIC, National Banking System and ITCR for small industry development; INA and the Ministry of Labor, and IMAS for job training and placement, etc.).

GOCR counterpart funds, estimated at \$100,000 will finance all staff and clerical positions (with the exception of the Project Coordinator), office space and equipment, and other support costs for the Coordination Office. Loan funds will be utilized for contracting the Project Coordinator (\$36,000) and for an estimated 4 months of short-term of technical assistance (estimated cost \$20,000) for consultation on coordination and management systems.

d. Project Evaluation.

The Project Evaluation Plan is discussed in Section VIII. The Loan will fund 5 months of consultant services in detailed evaluation design; baseline, 18th-month, and 36th-month status surveys; data processing costs, and costs for special evaluation studies. An early evaluation will include an investigation of possible employment constraints faced by women that should be addressed by the Project. GOCR counterpart will be required for contract supervision and monitoring costs.

URBAN POLICY, PLANNING, PROJECT COORDINATION/PLANNING,  
AND EVALUATION INPUTS  
(\$'000)

<u>Subject of Study</u>	<u>Months</u>	<u>Cost (\$ 000)</u>	
		<u>AID</u>	<u>GOGR</u>
I. Urban Policy and Planning			
A. Policy Level			
1. Analysis of institutional changes which could improve coordination and execution of projects.	6 CR	10	-
2. Effect of current urban policies on increasing Employment opportunities and services to the poor.	6 CR	10	-
3. Economic and social effects of artificially low interest rates.	6 CR	10	-
4. Housing policy:			
a. Short-term assistance in the methodology and process for developing a housing policy.	10 US	50	-
b. Studies on subjects such as housing finance and interest rate policies	8 US 10 CR	40 15	- -
5. Labor policy: The hardcore unemployed, factor pricing, labor-intensive technology	6 CR	<u>10</u>	<u>-</u>
Sub-Total		\$145	-
B. Urban Planning			
6. Identification of the nature and degree of poverty in the Agglomeration and in Secondary Cities. Conduct of sample-surveys, survey design and analysis		50	-

<u>Subject of Study</u>	<u>Months</u>	<u>Cost (\$000)</u>	
		<u>AID</u>	<u>GOCR</u>
7. Project Development:			
a. Target group identification	6 CR	10	-
b. Target group migration	2 CR	3	-
c. Employment expansion oppor- tunities	6 CR	10	-
	6 US	30	-
d. Housing needs	3 CR	5	-
e. Impact of alternative project	10 CR	15	-
	6 US	30	-
Sub-Total		\$153	-
C. Training			
Ten person years of overseas training for OFIPLAN staff in subjects related to public policy analysis and formul- ation		\$140	
II. Project Coordination and Monitoring			
- Personal services contract - three years/ half time			
- Project advisor \$12,000 x 3		\$ 36	
- Management T.A. 4 p.m.		\$ 20	
- Staff and operational support costs			100
Sub-Total		\$ 56	\$100
III. Project Evaluation			
Design of evaluation and analysis of results - consultant - 5 MM - US		\$ 25	
Surveys: Baseline		\$ 35	
18th month		\$ 20	
36th month		\$ 20	
Special in-depth studies	6 CR	\$ 10	

<u>Subject of Study</u>	<u>Months</u>	<u>Cost (\$000)</u>	
		<u>AID</u>	<u>GOCR</u>
Data processing		\$ 10	-
Sub-Total		\$120	-
IV. Summary Budget			
- Urban policy/planning		\$438	-
- Project coordination/monitoring		\$ 56	\$100
- Evaluation		\$120	-
TOTAL		<u>\$614</u>	<u>\$100</u>

URBAN ENVIRONMENT PROJECT

SUMMARY BUDGET (\$000)

	<u>AID</u>	<u>HIG</u>	<u>GOCR</u>	<u>TOTAL</u>
1. Labor Supply	646.5		2,048.0	2,694.5
2. Labor Demand	3,813.5		4,800.0	8,613.5
3. Urban Policy, Planning, Project Coordination/Planning and Evaluation Inputs	614.0		100.0	714.0
4. Shelter Community Infrastructure	426.0	11,400.0	4,442.0	16,268.0
GRAND TOTALS	5,500.0	11,400.0	11,390.0	28,290.0

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#### IV. SOCIAL ANALYSIS

##### A. Social and Cultural Feasibility

##### 1. The Primary Target Group

This Project is directed toward the poor of the San José Metropolitan Area. Although these poor are dispersed throughout the Area, there are concentrations in tugurio areas; much of this Project, especially the housing portion, will be directed at the poor living in the tugurios.

The Urban Sector Assessment describes three types of tugurios: Concentrated, Dispersed and Unstable Pockets.

Concentrated tugurios, which were formed immediately after World War II and which occupy large, continuous, and clearly bounded zones, are the stereotype urban slums. There is evidence from studies in other Latin American cities, supported by informed opinion of Costa Rican social scientists, that well-established slum areas of this type serve many of the basic needs of low-income people, offering a micro-society of opportunities for upward mobility. They tend to be self-policing and shelter conditions, though unappealing by middle-class standards, tend to reflect rational economic choices in terms of investment and the raw materials used. Only ten percent of the families are migrants, and there is a relatively low rate of population turnover. The areas are neither attractive nor repulsive in character, but stable; the inhabitants are "loyal to home". Concentrated tugurios also have a much higher percentage of renters than is the case in the other types.

Dispersed tugurios, of more recent formation, have resulted from the influx of migrants during the 1960's. Poor housing is mixed with relatively higher value units. Residents here are poorer on the average than those in the other two types of tugurios, and family size is somewhat larger. There is a significantly higher incidence of owner-occupied dwellings, although housing density and infrastructure provisions are significantly less than in Concentrated tugurios.

Unstable Pocket-type tugurios are not associated with particular historical periods. Rather, they represent

small and isolated groupings of diverse age and origin, clearly demarcated in strips and pockets, sometimes the result of squatter invasions. They are relatively unstable, with two-thirds of the population located on private and one-third on municipal land.

While each of the three tugurio types will receive attention under the Project, the characteristics of each type suggest different component mixes. With respect to Concentrated tugurios, for example, it is anticipated that: (1) home improvement loan activity will be minimal because of the low incidence of owner occupied units; (2) there will be a relatively high incidence of families capable of benefiting from sites and services options, if the sites are close to present residence and job locations; and (3) there will be a medium to low incidence of infrastructure projects; the infrastructure typically found in such neighborhoods is more developed, and there may be difficulties in assessing landlords for improvements benefiting renters. Additionally, this type of tugurio is suitable for experimental solutions involving expropriation, legal action against delinquent landlords, and/or voluntary cooperation of landlords and tenants in community and home improvement activities.

Dispersed tugurios are expected to absorb a significant amount of housing and infrastructure funds. The low incidence of renters will make title registration and home improvement lending particularly appropriate. The need for infrastructure is also great because these tugurios are relatively new and have large land areas.

Unstable tugurios, because of their "vest pocket" nature, relative instability, and uncertain land tenure status, do not lend themselves to shelter and infrastructural investments. Those that appear likely to become permanent communities will receive Project funds. On the other hand, sites and services solutions in nearby areas will be offered to residents of tugurios characterized by hazardous conditions or transitory populations.

All types of tugurios are appropriate and will be targets for the income improvement activities. Because of the dispersed nature of poverty in San José, the employment generation components of the project will not be restricted to tugurio dwellers; however, the project is designed to give these people priority. For instance, much of the small industry to benefit

from the loan program is located in or near tugurios; as are the IMAS offices which will be the first point of contact for training and job placement activities.

## 2. Popular Participation and Tugurio Organizations

Surveys carried out for the Urban Sector Assessment found that Costa Rican tugurios are relatively well organized and capable of mobilizing themselves for collective action. The activities of community organizations include education, community development, nutrition, cooperatives, religion, politics, and labor movements. People who have worked in tugurios observe that residents spontaneously organize themselves into pressure groups for purposes of getting immediate action on well-focused problems: for example, securing rights to land where people are subject to expulsion. Once the objective is met the group often dissolves.

Tugurio residents were asked to respond to the question, "In a case where the Government is not treating you justly, which mechanism do you think would produce fastest results?" About a third would rely on existing local government or officially recognized representative entities (municipalities 11%, Community Development Associations 21%); another third would use ad hoc arrangements (organizing meetings with neighbors 28%, organizing strikes 3%); and a fourth would use political channels (congressional representative 19%, political party channels 4%). Only three percent of the sample of 517 adults said they would do nothing, indicating very little overt cynicism or indifference. The preferred method of problem-solving for nearly half of the respondents was to work with either ad hoc neighborhood groups or Community Development Associations, suggesting a high degree of self-reliance among the tugurio residents.

Local tugurio community organizations will be strengthened under the Project by the direct efforts of DINADECO to increase the skill and confidence of the urban poor in improving their standard of living and in dealing with and influencing government programs and policies. This effort will build directly on tugurio dwellers' demonstrated willingness to take collective action.

Community participation is particularly relevant to the shelter and infrastructure components of the project. In the case of housing, the community organizational role will primarily be one of promotion and information, especially for land



tenancy legalization and home improvements. For sites and services projects, once the broader community promotion effort is completed, DINADECO and INVU will assume the principal organizational role for further subproject development.

The principal organizations involved in infrastructure and community improvements will be the Development Associations and the smaller development committees which report to the larger Development Associations. There are now 66 Development Associations with legal status operating in the Metropolitan Area. Development Associations are autonomous organizations formed under the DINADECO legislation, and are subject to the audit and fiscal control of DINADECO. They are funded by grants from the National Budget, and may receive loans from the Banco Popular for specific community improvement projects. The present capabilities of these organizations vary.

DINADECO will improve its capacity to promote, develop, and train both the currently active development committees and those to be formed. Of particular importance will be the establishment of good working relationships between these groups, the Development Associations, and the municipalities. While municipalities will be the main borrowers of the infrastructure funds from IFAM, the Development Associations will have the task of identifying the specific works to be undertaken. Because beneficiaries will be assessed for improvements, the community must understand the potential benefits and reach a consensus about undertaking a given sub-project. Associations will have to work closely with the municipalities in the assessment and loan repayment process for each project. Up to now the Associations have been working as fund-raisers. Some groups have been effective at this, but all have suffered from insufficient funding for the type of projects undertaken. Under this Project the Associations should become more effective, since more time can be dedicated to problem identification and community organization, and less to raising money. Associations will act as spokesmen for residents who want specific improvements and who are willing to be assessed individually for such improvements.

B. Project Suitability and Acceptance, Including Possible Resistance

The benefits to be derived from this Project are essential to basic welfare: employment and thus higher income, improved shelter and community infrastructure and the strengthening

of individuals and communities as agents of change.

The Project components respond to specific needs and wants of the poor. It was noted in the Interim Report that approximately 75% of small industries in San José are located in deteriorated areas, and over 40% of the workers in the tugurios are employed in either the small business or the informal sector. The availability of credit to small industries will, therefore, directly aid the tugurio poor.

The desire of small businessmen to obtain bank credit is indicated by the findings noted in our Credit Demand Analysis (Section V.C. and Annex II.G.); 33.4% of the estimated 3,500 firms in the target group received bank loans during 1977, while over half of this group had applied for credit.

The question of whether workers are capable of being owners is answered to some degree by the successful cooperative experience in Costa Rica, but also will be one of the areas of investigation in the WOOF experiment. The metro area is a beehive of small businesses, and Costa Ricans have an affinity for individual, entrepreneurial effort.

Job training is desirable, both for its contribution to worker productivity and for its role in enhancing worker satisfaction. In the Household Survey workers were asked whether they felt a lack of adequate training. About one-quarter of those who had worked the previous week said they were working in jobs for which they were not qualified. Nineteen percent of the respondents were attending a training course at the time of the survey, and sixty-eight percent expressed interest in attending one, indicating that the training component of the Loan answers a felt need among tugurio poor.

An anthropological study of Villa Esperanza, a San José housing development created by INVU in 1969, 1/ found that

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1/ Emilia María Rodríguez A., Villa Esperanza: Una interpretación antropológica. Unidad de Investigaciones Sociales, Oficina de Información, Casa Presidencial, San José, Costa Rica. July 1977.

self-help housing was widely accepted as a shelter option for low income families, and that the most serious problem still confronting the community was the lack of adequate infrastructure and services.

Villa Esperanza has several types of housing: concrete houses without interior partitions, two-bedroom wooden houses, and self-help houses. The investigations found that owners of the self-help houses derived greater satisfaction from their homes, and were more willing to improve their houses and maintain them in good condition. This Project will provide sites and services, allowing houses to be constructed according to the aspirations and needs of the participants. The residents will see themselves as real owners, responsible for maintenance and improvement. Self-help housing develops mutual aid networks among neighbors, which are then reflected in other aspects of social behavior. As mentioned, tugurio dwellers already have experience in self-organization.

According to the Household Survey cited in the Urban Sector Assessment, 51% of tugurio residents rented their houses, and 83% of these said they wanted to own their homes. More than half of those who did own their homes expressed the desire to do repair work on them. Those who were renting paid an average of ₡267, or \$31 per month (only 5% paid less than ₡100, or \$12). The average monthly payment that the families were willing to make, whether renting, buying, or repairing their homes, was ₡250, or \$29 (only 11% said they could pay no more than ₡100). Because the solutions offered under this project will not exceed \$30 a month, there appears to be both a willingness to improve housing and the ability to pay.

Elements which will contribute to the success of this Project are evident in the nature and extent of the poverty phenomenon in Costa Rica. The poor are not yet gathered in great concentrations, but are dispersed throughout the Metropolitan Area; the tugurios are not totally comprised of deteriorated buildings or apathetic families. In short, poverty in Costa Rica does not appear to have developed its own sub-culture, and given the opportunity the poor should be able to join the mainstream of Costa Rican life. This apparent lack of a poverty sub-culture and assumptions regarding mobility from poverty to higher income strata will be tested during the life of the Project.

Landlords whose interests could be threatened by this Project may try to block certain activities; municipal governments may object to the lower building and infrastructure standards of

a program promoting incremental barrio improvement rather than the eradication and construction of new housing.

Since the purchase of lots by renters is experimental and might meet resistance, this activity has been kept small. The proposed 500 cases over a three-year period will be sufficient experience for setting future criteria, and will not jeopardize other Project components. Resistance to assessments for infrastructure improvements can be countered with arguments about the increased attractiveness of the neighborhood to renters and the increased property values resulting from community improvements. Local law permits rent increases in relation to the cost of improvements made to a property. However, INVU has the authority to regulate rent levels in tugurios. Renter occupancy rates also should go up because of improved living conditions, thereby benefiting the landlords. Resistance by municipal governments to lower construction standards can be reduced if Councils are informed of the project objectives and encouraged to participate in the planning of sub-projects. Municipalities will have to take an active role in project activities, especially for the community and infrastructure improvements, from early project identification stages through execution and subloan recuperation. Early feedback from municipal officials can be helpful to overcome objections that might be raised later when building permits must be issued. DINADECO will have to play an important role in selling the concepts to the landlords and municipalities; in some cases community pressure may be necessary. Past conflicts between INVU and Municipalities on building standards (Municipalities resisting lower INVU standards) have been satisfactorily resolved through early consultation.

### C. Spread Effects

The spread effects of the Project are assured by the institutionalization of systems to address urban poverty, and the establishment of credit lines which will allow for reuse of funds for program continuation. Additionally, Loan funds have been allocated for (1) further study of urban poverty outside the geographical boundaries of this project (i.e., San José Metropolitan Area) and (2) the design of an FY80 AID supported program for addressing the urban development needs of Costa Rica's secondary cities.

The San José Program will test the feasibility of a

coordinated effort to solve urban poverty problems where they are now most prevalent. It is expected that this approach or a similar one will be applied elsewhere once the benefits have been demonstrated.

According to the Urban Sector Assessment, there is little reason to believe that urban poverty can be significantly alleviated by decentralization of economic activities and industry. Urban poverty must be dealt with in the poor communities themselves. It is not anticipated that new employment generated by small and worker-owned industries or improved housing in San José will precipitate increased rural to urban migration. Although studies on the motivation of migrants have not been made, it is the opinion of most Costa Rican experts that rural to urban migration is more a function of rural residents being displaced, rather than being "pulled" by job and other city attractions. The approach to be taken in this Project -- institutionalization within San José and replication in other poverty areas -- is consistent with these views.

D. Implications for the Role of Women

Women have had a relatively low rate of participation in the job market, although it has been growing in recent years. It appears that a significant number of women (both potential labor force entrants and those already looking for work), will be able to benefit from the employment to be generated by this Project. The Federación de Organización Voluntarias (FOV), a non-profit voluntary organization created in 1969 and focusing primarily on the needs of women, will use existing OPG funds (not part of this Project) to identify potential women applicants for job training and placement. Motivational and adaptational training designed to meet the needs of women facing the challenge of new jobs or housing projects will be offered to approximately 1,500 poor women from the San José Metropolitan Area. Constraints unique to women which may limit their full participation in employment and training activities will be examined in one of the early evaluations of the Project.

V. FEASIBILITY ANALYSES

A. Economic Analysis

1. Project Cost

The benefit/cost analysis that follows is based on A.I.D. and GOCR contributions to the three projects components which are designed to increase employment and incomes of the target groups: training and employment, small industry expansion, and worker-owned industries. Housing funds as well as funds for research, policy planning and surveys are not included. The allocation of project costs among the three major employment generating activities are as follows:

Training and Placement	\$ 2,694,500
Small Industry Expansion <u>1/</u>	7,059,500
Worker-Owned Industries	1,450,000
TOTAL	\$ 11,204,000

To evaluate the discounted value of the cost stream relative to the discounted flow of benefits which can be expected as a direct result of the Project, it is assumed that 20% of project funds for each component will be disbursed in the first year, 40% in year two and 40% in year three.

Project Expenditure Flow

	Training and Placement	Small Industry Expansion	Worker Owned Industries	TOTAL
Year 1 20%	\$ 538,900	\$1,411,900	\$ 290,000	\$ 2,240,800
Year 2 40%	1,077,800	2,823,800	580,000	4,481,600
Year 3 40%	1,077,800	2,823,800	580,000	4,481,600
Year 4-20	0	0	0	0
TOTAL	\$2,694,500	\$7,059,500	\$1,450,000	\$11,204,000

1/ Project costs allocated to this activity include both credit and a portion of the costs for T.A., training and placement, which will enable up to 3,530 workers to obtain productive employment in small industries.

2. Project Benefits

a. Training and Employment

It is estimated that 8,000 workers will be placed in better jobs as a result of the Urban Project's training and placement activities. Approximately 6,000 of these workers will require both training and placement while an estimated 2,000 will be placed without training. Since some jobs will be generated by either credit for small industry expansion (3,530) or by the creation of WOOFs (120), only 4,350 job placements can be attributable directly to the training and placement activities. Assuming all workers are receiving a minimum wage prior to the start of the Project, the value of the training and placement benefits are estimated to be one-half the difference between the existing minimum wage for Costa Rica and the average wage of industrial workers after placement, or \$174 per year per employee. The calculations are:

Minimum Monthly Wage	¢ 450.00	at 8.6 = \$52 per month
Average Monthly Wage	694.75	at 8.6 - \$81 per month
Industry	666.50	
Commerce	716.80	
Transportation	818.10	
Construction	<u>577.60</u>	

1/2 Annual Average Wage	\$486	
less 1/2 Annual Minimum Wage	<u>\$312</u>	
Benefits attributable to training and placement	\$174	per year per employee

The benefit stream of the training and placement activity is as follows:

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<u>Year</u>	<u>Allocation</u>	<u>Employed</u>	<u>Benefits</u>
1	0	0	0
2	20%	870	\$151,380
3	60%	2,610	\$454,140
4 - 20	100%	4,350	\$756,900

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The assumption that no placements will be made during the first year of the Project takes into account the lead time required to initiate implementation. Worker/turnover, promotions, cost of living increases, as well as inflation factors are omitted for purposes of simplicity. Elimination of these factors makes the estimate of projected benefits to be derived from the Project's training and placement activities conservative.

b. Project Benefits - Small Industry Expansion

The average size loan made to small industries in 1977 for both fixed and working capital was 25,886 (\$3,010). The Urban Project will provide credit and technical assistance to 970 firms which will permit them to increase their output and productivity. Direct benefits attributed to the Project are the returns to the individual firms on borrowed funds plus the wages resulting from additional jobs generated by new investments. The benefit stream is based on an annual 30% return on borrowed funds. Since the average size loan which will be made to small industrialists will be \$3,010, the annual benefit per firm will be \$903 (30% of 3,010 = \$903). The basis for this assumption is that a 50% guaranteed return is generally required of a small industry borrowing from private sources (Prestamistas) and the fact that a minimum 30% rate of return is required to justify a request for credit from the National Banking System. Using the average investment in 1977, plus expected returns on investment yield a conservative estimate of project benefits.

Experience to date in lending to small



businesses has shown that the expansion of production capacity of these firms generates new jobs and hence increases the demand for semi-skilled labor. The Urban Sector Assessment and a series of surveys of small industry in the San José Metropolitan Area conducted by AID and the GOCR have found that:

i. The majority of the small enterprises in the San José area tend to depend principally upon labor intensive production techniques.

ii. Economies of scale, combined with limited geographic markets for small firms, tend to slow down the process of capital-labor substitution.

iii. The demand for semi-skilled labor, or for labor which has acquired basic skills training but is without relevant work experience, is generally greater among small private enterprises.

iv. Small-scale firms are an excellent training mechanism for individuals entering the labor market. Work habits and skill levels develop rapidly in the small business environment.

v. Small-scale businesses tend to rely on local inputs to a greater extent than large industry. Thus, the job multiplier effect is relatively large per dollar of investment.

vi. Finally, the majority of small-scale industries are located in or near the urban tugurios. Thus, the cost of transportation for the employee is lower; at the same time, businesses have a nearby labor pool upon which to draw.

Three studies have empirically examined the question of employment generated per dollar invested among a variety of small industrial firms. Each study was based on a different sample of small firms. The definition of small scale business differed among the studies as well as the definitions of "total investment". The following table summarizes the conclusions of the three studies.

<u>Data Source</u>	<u>Average Total Investment</u>	<u>Average Invest. per Worker</u>
(1) Registro de Datos Básicos de las Pequeñas Industrias y Artesanías *	\$13,795	\$ 2,130
(2) Formularios para Exoneración de Impuestos *	\$18,927	\$ 2,344
(3) Sample Surveys of Micro-firms USAID/CR Urban Analysis	\$ 6,600	\$ 1,238

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\* Ministerio de Economía, Industria y Comercio (MEIC)

The best estimate that the Mission can make regarding the number of jobs that will be created as a result of Small-industry loans is by using the weighted average of the investment per worker from these three studies, rounded to the nearest thousand. That is, for every \$2,000 of investment, small industries will generate one additional job. Therefore, given a total additional investment of \$7,059,500 for small-industries, it is estimated that the project will generate approximately 3,530 new jobs. 1/

### 3. Benefit Stream

It is assumed that Project benefits will begin to accrue in the second year (20%), and increase to 60% in the third year and 100% in the fourth year. For the purpose of computing the benefit stream, it is assumed that firms will maintain the total number of additional employees hired. Decreased benefits resulting from business failures and increased benefits

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1/ Total projected investment in the small industry sector includes both credit and imputed costs of technical assistance and training.

resulting from multiplier effects are not included.

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<u>Year</u>		<u>Nº of Small Industry Investments</u>	<u>Benefits</u>	<u>Nº of Jobs</u>	<u>Benefits</u>	<u>TOTAL</u>
						0
1		0	0	0	0	
2	20%	194	175,958	106	18,444	\$ 194,402
3	60%	582	527,814	2,118	368,532	896,406
4	100%	970	879,790	3,530	614,220	1,494,010

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a. Project Benefits -- Worker-Owned and Operated Firms

Based on a pre-feasibility study of a factory producing Captain Chairs, the average loan for a worker-owned firm, including fixed and working capital is estimated to be \$333,000. Each of the three firms to be created under the Project is expected to employ 40 workers. Direct project benefits are calculated on the basis of a 30% return on borrowed funds plus one-half the differential wage paid to workers employed in the new positions.

b. Benefit Stream

<u>Year</u>	<u>Loans</u>	<u>Benefit</u>	<u>Jobs</u>	<u>Benefit</u>	<u>TOTAL</u>
1	0	0	0	0	0
2	1	99,900	40	6,960	\$ 106,860
3	2	199,800	80	13,920	213,720
4 - 20	3	299,700	120	20,880	320,580

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c. Benefit/Cost Summary

The opportunity cost of investment capital cost analysis was assumed to be 15%. The implicitly those investments which yield a 15% rate of should be undertaken. The following table summarizes calculations:

<u>s</u> <u>ear</u>	<u>Discounted</u> <u>Value of</u> <u>Tot. Benefits</u>	<u>Total Cost</u> <u>in 10-year</u>	<u>Discounted</u> <u>Value of</u> <u>Total Cost</u>	<u>B/c</u> <u>Ratio</u>
3,820	\$ 2,404,526	\$ 2,694,500	\$ 1,992,852	1.21
9,278	4,901,847	7,059,500	5,221,206	.94
4,640	1,098,201	1,450,000	1,072,420	1.02
7,738	8,404,574	11,204,000	8,286,478	1.01

The total project has a positive Benefit/Cost 10th year. The Training and Placement and Worker- nents show a positive benefit/cost ratio in the 10th ect while the Small Industry Expansion component in the 11th year. Using a 10% discount rate, the uld have a positive benefit/cost ratio after the

B. Credit Demand Analysis

1. Summary

An analysis carried out in April 1978 derived the expected incremental demand for small industry credit for the three-year period 1979-1981 by calculating the gap between the total credit demanded and the total supply of small industry credit funds.

The study estimates a 21% increase in the number of small industrial firms applying for credit as a result of activities to be carried out under the Urban Environment Project -- bank reforms, credit promotion, technical assistance and training activities. It also predicts an 18 percent increase in bank approved loan applications because of an increased interest rate spread to the SBN on loans made to small industries, and the existence of a risk neutralizing Guaranty Fund. Of the 3,500 small industrial firms in San José, the study estimates that 2,100 will receive credit by the third year of the Project, an increase of 970 firms over the number which received credit in 1977. The final conclusions of the study are that over the life of the Project, the total amount of new, small industry loans to be granted will be \$15.5 million, or \$5.8 million more than the SBN will be able to lend.

The ability of the SBN to lend is dictated by the Central Bank, which allocates credit funds on the basis of a tope (Limit) system. It establishes ceilings on the total allowable portfolio the SBN can maintain for each sector of the economy, and imposes penalties on SBN members if they exceed any of these limits. Only the artisan and small-industry sectors have minimum topes, or portfolios which they are expected to reach and surpass.

In 1977 small-industry and artisan lending in the San José Metropolitan Area (¢30.0 million colones) exceeded the minimum tope for the entire country (¢26.8 million colones) and additional resources to meet this credit demand had to be drawn from the Small Farmer Credit allocation (Annex II.G; pg. 19 and Annex II.H). The Central Bank increased the combined tope for the small-industry and artisan sectors (for the entire country) to ¢50.0 million colones in 1978, because of this increased demand and pressure for progress in this economic sector. However these additional funds, plus recuperations, will not be enough to meet projected credit demand, and the Central Bank cannot increase the tope without straining the supply of funds in other sectors of the

economy (for which credit demand already exceeds the available supply).

The critical role of AID and GOCR counterpart funds is, therefore, to raise the small-industry portfolio to meet increased demand resulting from this Project.

2. Calculations

Assuming that new firms entering the institutional credit market will require financing for both working and fixed capital, and that old firms will return every year for loans in order to maintain their working capital balances, the study produced the following projections:

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>
<u>Fixed Capital</u>						
New Firms	320	850	280	310	340	320
<u>Working Capital</u>						
New Firms	320	850	280	310	340	320
Old Firms	0	320	1,170	1,450	1,760	1,780
Number of Firms in the Portfolio	320	1,170	1,450	1,760	2,100	2,100

Estimating a ratio for the use of credit funds of 40% for working and 60% for fixed capital, the study developed the following equation to determine the total amount of credit demanded each year:

$$\text{Total annual credit} = \frac{.6}{.4} (N)(X) + (N)(X) + .75(O)X$$

Where: X = average size of working capital loan

N = number of new firms

O = number of old firms

It then solved for X using the known 1977 amount of small industrial credit provided in the metropolitan area (\$3,546,485), the number of new firms requesting credit (850) and number of old firms returning for credit (320). The results for 1977 are as follows:

	<u>Fixed Capital</u>	<u>Working Capital</u> <u>New Firms</u>	<u>Working Capital</u> <u>Old Firms</u>
1977	\$ 2,250	\$ 1,500	\$ 1,125

The study incorporated an inflation rate of 8% and the expected increased use of bank credit by small industrialists into coefficients for each year of the Project. They are: 1978 - 1.08; 1979 - 1.15; 1980 - 1.3; 1981 - 1.45.

Applying these coefficients to the above 1977 average figures produced the following:

	<u>Fixed Capital</u>	<u>Working Capital</u> <u>New Firms</u>	<u>Working Capital</u> <u>Old Firms</u>
1977	\$ 2,250	\$ 1,500	\$ 1,125
1978	2,430	1,620	1,215
1979	3,018	2,012	1,509
1980	3,685	2,456	1,842
1981	4,439	2,959	2,219

The estimated average loan size multiplied by the number of firms requiring credit gives the total credit demand for each year.

	<u>Fixed Capital</u>	<u>Working Capital</u> <u>New Firms</u>	<u>Working Capital</u> <u>Old Firms</u>	<u>Total</u>
1977	1,912,500	1,275,000	360,000	3,547,500
1978	680,400	453,600	1,421,559	2,555,550
1979	935,580	623,720	2,188,050	3,747,350
1980	1,252,900	835,040	3,241,920	5,329,862
1981	1,420,480	<u>946,880</u>	<u>3,949,820</u>	<u>6,317,180</u>
Program Total	3,608,960	2,405,640	9,389,790	15,394,392

The program total does not equal the amount required for the Project because the banks will be able to recuperate some of the amounts loaned in previous years. The projected recuperations were calculated based on the assumption that the banks will recuperate two thirds of working capital loans in the second year and the final third in the third year; that the banks will recuperate one fifth of fixed capital loans every year after a 2-year grace period for loans made before 1979, and recuperate one-eighth of fixed capital loans after a 2-year grace period for loans made after 1979; and that all loans will be made at mid-year. The projected recuperations are:

1977	239,503
1978	1,263,315
1979	2,093,535
1980	3,053,176
1981	<u>4,337,241</u>
Total Program Recuperation (1979-1981)	9,483,952



Subtracting the recuperations from the total program demand of \$15,394,392 indicates the need for an additional \$5,910,440. <sup>1/</sup> The availability of these funds will permit the banking system's portfolio of small industrial and artisan loans to increase 171% by 1981 and the number of small industrial borrowers to increase by 79%.

### 3. Interest Rates

The Central Bank has established differential interest rates to be charged by the commercial banks and differential rediscount rates that are intended to reflect objectives of monetary and credit policy. The 8% interest rate charged to small industry is an indication of the importance the GOOCR assigns to helping this segment of the population.

The 8% is subsidized; it is not sufficient to cover costs. A study made by the Central Bank for the year 1973 indicated that the breakeven point for the commercial departments (including industry loans) of the banking system was 8.6%. This did not include a margin for inflation nor does it take into account the higher costs of handling small loans. The GOOCR justifies non-profitable lending because it fulfills social objectives.

Subsidized interest rates are considered to be normal credit instruments of the Costa Rican nationalized banking system. The commercial banks are expected to operate in the black by offsetting these losses with earnings from profitable loans. The justification given for subsidized rates is that they represent transfers of income in favor of the poorer, smaller producer.

While the Costa Rican Banks try to help the small industrialists with subsidized interest rates, at the same time they attempt to use commercial banking criteria, which results in insufficient lending to small industry. Because of this and the inefficient allocation of resources that accompanies differential rates, AID has not supported a subsidized interest rate policy.

AID and Costa Rican officials have discussed the

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<sup>1/</sup> The credit demand analysis indicates the need for \$5.8 million. The difference is attributable to a floating exchange rate and rounding differences.

effects of subsidized interest rates in depth. The discussions have led to two proposed actions. The first is to address the immediate problem of a shortage of small industry credit through activities to be carried out under this Project; specifically by instituting a guaranty fund, increasing credit promotion and technical assistance activities, increasing minimum credit portfolios, and providing additional credit funds. The second action will be to carry out a comprehensive interest rate study by the end of the second year of the Project, to bring to the attention of Costa Rican policy makers the long run political, social and economic consequences of subsidized interest rates. AID will make the completion of this study a covenant to the Loan.

The GOCR commitment to resolving small industry credit problems has been demonstrated by its willingness to make the specified banking reforms and to examine in detail the effects of subsidized interest rates. Considering the GOCR commitment and the estimated demand for credit, \$3.0 million in AID funds for credit (\$2.5 million for small industry and \$500,000 for the WOOF experiment) are considered justifiable.

C. Financial Feasibility of Worker-Owned and Operated Firms (WOOFs)

The objective of the WOOF experiment is to determine the feasibility of an alternative form of business organization which would provide workers with both an adequate wage and a share of profits. The costs and projected income figures for a model WOOF producing Captain's chairs for export indicate that the project would be financially feasible (Annex II-I).

The Mission has selected the example of a firm producing Captain's chairs for export because it exemplifies three desirable characteristics. The product is in the wood industry, which the GOCR considers to be of high priority for development. The manufacturing of wood products is also a technical field in which Costa Rica is developing local expertise. Finally, increased domestic employment is assured because the product is made for export.

The model provides an estimate of the income possibilities of a typical factory producing nonupholstered wooden Captain's chairs using intermediate level technology. The data used to construct the model were obtained from three sources. An AID consultant obtained detailed cost information on fixed investment, plant output, number of process workers and factory operations from the Shelby Williams Captain's Chairs Factory in Morristown, Tennessee. The Ministry of the Presidency estimated overhead costs, insurance and maintenance charges, based on the operations of similar medium scale factories in Costa Rica. The Costa Rican Technology Institute (ITCR) estimated the costs of raw materials.

The Shelby Williams Company would buy Captain's chairs at \$12.00 per chair CIF U.S., and handle U.S. marketing arrangements. The U.S. market is assured if the chair can be supplied at the stated price and meet standard specifications. A satisfactory experimental production of the chair has been completed in Costa Rica.

The estimated annual operating costs of the factory (\$504,900) as compared with annual sales (\$576,000) show a net profit, before tax and fiscal incentives of \$71,100 by the second year, or \$1,580 per worker. This is an 12.34% return on annual sales and a 30.51% return on fixed capital.

The firm would be able to produce 60,000 chairs annually at an estimated unit price of \$9.60, which would generate a profit

of \$1.19 per chair. The Project Cash Flow for the model firm shows an internal rate of return of 25.4%. While the operating costs do not include the cost of the management consulting firm, which would be a research and development cost borne by the GOCR with AID loan funds, they do include the cost of a manager and an administrative assistant who could be trained by the management consulting firm.

The illustrative example shows that producing Captain's chairs for export is financially feasible; i.e., a common business entity can make a profit from the production of Captain's chairs. What the feasibility analysis for this pilot firm does not and cannot reflect is whether the social structure of a worker-owned and operated firm can be successful at producing Captain's chairs. This will be tested and evaluated in the Project.

D. Effective Demand for Shelter and Community Improvement

1. The Target Group

The target group for the Shelter and Community Improvement components of the Project has been identified as families resident in the 19 target tugurio nucleos and whose incomes are below the median of \$262 per month for the San Jose Metropolitan Area. In addition, families with less than median incomes in other sections of the Metropolitan Area will also be eligible for home improvement loans and sites and services solutions. It is expected that these families will be able to pay for the various shelter solutions to be financed under the Project.

Income distribution data collected from the household survey in the tugurios are presented in Table V.D.1, and income distribution for the total San José Metropolitan Area is shown in Table V.D.2. 64% of the families in the tugurios earn less than the median family income for the Metropolitan Area. There are no income data at the Nucleo level, but it is estimated that 47% of the families earn less than the median income for the metropolitan area. There are currently an estimated 9,839 eligible families in the 19 targeted areas. If the 5,250 shelter solutions (sites and services, home improvements and titling) are developed only in the 19 nucleos, the Project could benefit 53% of the eligible families in those areas.

2. Demand as a Function of Housing Stock

The projected housing conditions in the 19 Nucleos are presented in Table V.D.3. Of a total of 17,262 units, approximately 58%, or 10,000 units are in poor or fair condition or overcrowded. Considering that the housing stock represented here accounts for only about 17% of the total metropolitan area housing stock, total demand in the San José Metropolitan Area can be assumed to be much greater.

The total number of housing solutions assumes that approximately half of those families opting for legalizing tenancy will also receive home improvement loans. Therefore, the total "Housing" solutions are estimated at about 5,250 or 200 less than the sum of the three types. These calculations also assume average costs for each type of solution; cost increases will reduce the number of solutions. The total number of solutions proposed represents only slightly over half of the potential estimated demand for 19 Nucleos and only about one-eighth of that for the Metro Area.

TABLE V.D.1  
Monthly Family Income Deciles  
Marginal Barrios-Metropolitan Area

<u>Decile</u>	<u>Percentile</u>	<u>Family Income</u>		<u>Mean Income</u>	
		<u>C.R. ₡</u>	<u>U.S. \$</u>	<u>C.R. ₡</u>	<u>% of Income</u>
	0	0	0		
1st				384	1.70
	10	768	90		
2nd				880	3.89
	20	993	116		
3rd				1,095	4.84
	30	1,197	140		
4th				1,317	5.82
	40	1,437	168		
5th				1,574	6.90
	50	1,711	200		
6th				1,851	8.18
	60	1,991	233		
7th				2,301	10.17
	70	2,611	306		
8th				2,927	12.94
	80	3,242	380		
9th				3,557	15.72
	90	3,872	453		
10th				6,735	29.77
TOTALS	99.9	3,599 *	1,124 *		

SOURCE: Household and Adult Survey-May 1977. Office of Information.  
 Ministry of the Presidency.

\* Estimated to Calculate Mean.

TABLE V.D.2  
Monthly Family Income Deciles  
San José Metropolitan Area

<u>Decile</u>	<u>Percentile</u>	<u>Family Income</u>		<u>Mean Income</u>	
		<u>C.R. ¢</u>	<u>U.S. \$</u>	<u>C.R. ¢</u>	<u>% of Income</u>
	0	0	0		
1st				365	1.36
	10	789	92		
2nd				962	3.31
	20	1,136	133		
3rd				1,312	4.51
	30	1,448	170		
4th				1,666	5.73
	40	1,845	216		
5th				2,042	7.02
	50	2,238	262		
6th				2,500	8.59
	60	2,760	323		
7th				3,065	10.53
	70	3,370	395		
8th				3,856	13.25
	80	4,343	509		
9th				5,236	17.99
	90	6,130	718		
10th				8,065	27.72
TOTALS	99.9	10,000 *	1,171 *		

SOURCE: Survey of Incomes and Expenditures-1974. National Director of Census and Statistics. Up-dated to 1977 by Urban Assessment Study - OFIPLAN.

\* Estimated to Calculate Mean.

TABLE V.D.3.  
Project Housing Condition, 1978  
Target Nucleos

<u>Housing</u>	<u>Population</u>		<u>Ave. Family Size</u>	<u>Houses (Families)</u>		
	<u>1973</u>	<u>1978</u>		<u>1973</u>	<u>1978*</u>	<u>%</u>
Good	35,763	41,459	5,333	6,706	7,774	45.04
Fair	17,009	19,718	5,366	3,170	3,675	21.29
Poor	<u>27,146</u>	<u>31,470</u>	<u>5,413</u>	<u>5,015</u>	<u>5,813</u>	<u>33.68</u>
TOTAL	79,819	92,647	5,367	14,891	17,262	100.00

Good: Houses with no apparent defects or deficiencies; however approximately 6% of these units are overcrowded - more than two percent per room.

Fair: Houses that are considered habitable but in need of repairs, addition of services, or expansion to reduce overcrowding.

Poor: Houses requiring demolition or extensive repair to make them decently habitable.

SOURCE: INVU Survey of 19 Target Areas, May 1977, Census 1973.

\* Projected using a growth rate of 3% per year from 1973.



There are approximately 56,000 families with less than median income in the San Jose Metropolitan Area. About 44% (24,640) own their homes and of these, 50% (12,320) desire to repair or improve their homes. The San Jose Urban Sector Assessment indicates (p. 180) that of those desiring home improvements about 53% do not wish to apply for loans to make the necessary improvements. Assuming the remaining 47% are willing to apply for loans, the estimated demand for home improvement loans is 5,970.

There is sufficient demand for sites and services within the 19 nucleos. Of the 9,839 eligible tugurio families, about 56% (5,510) are not presently home owners and the Urban Sector Assessment (p. 180) indicates that 83% of these, or about 4,575, desire to have their own homes. Assuming that these families will spend 20% of their income on housing, the data in Table V.D.1 indicate that 54% of these families, or 2,470, can afford the average site and service loan of \$1,391. Also, 30%, or 1,375, can afford the average loan for site and service with core house of \$2,781. These findings are consistent with the "willingness to pay" survey data in Annex II-E).

### 3. Demand for Community Infrastructure Improvements

Studies of infrastructure needs will be made for each Núcleo. The condition of principal infrastructure in nine of the target neighborhoods is described in Annex II-E. Two of these areas were studied in detail, and overall costs for complete infrastructure upgrading were estimated. (Table V.D.4). The total cost to completely upgrade these two Núcleos is approximately \$1.19 million; this is the maximum investment required, not what will actually take place. These numbers indicate, however, a substantial deficit in infrastructure and community facilities.

To what degree this need is met will depend on the effectiveness of DINADECO and community groups in identifying and promoting specific projects.

### 4. Ability to Pay

In estimating the ability of the poor to pay, the results of the household survey in the marginal barrios yield three separate indicators (presented in Annex II-E). These are the Breakdown of Monthly Rent Payments, Estimated Monthly Payment for Purchase or Improvement of Housing, and Distribution of Household Expenditures. The monthly payment costs of the proposed solutions are amounts which do not exceed payments now being made. For example, families with incomes below \$205 (¢1,750) per month spend, on the average, 23% of their budget on housing. 57% of the renters in the tugurios now pay more than the cost of a site and

TABLE V.D.4.

Estimated Cost for Complete Upgrading of  
Basic Infrastructure in Two Areas Studied

TARGET AREA 3

7,480 m <sup>2</sup>	From dirt to paved at	Ø 52/m <sup>2</sup> =	Ø 389,000	\$ 45,550
5,005 m <sup>2</sup>	Improve select matl. at	Ø 10/m <sup>2</sup> =	50,050	5,960
5,840 m <sup>2</sup>	Improve paved at	Ø 25/m <sup>2</sup> =	146,000	17,100
13,120 m	Curb and gutters at	Ø 75/m =	984,000	115,220
12,300 m	Sidewalks at	Ø 50/m <sup>2</sup> =	615,000	72,015
6,560 m	Sanitary sewer at	Ø130/m =	852,800	99,860
6,560 m	Storm sewer at	Ø180/m =	<u>1,180,800</u>	<u>138,265</u>
TOTAL AREA 3			Ø4,217,650	\$ 493,870

TARGET AREA 2

2,500 m <sup>2</sup>	Paved street at	Ø 52/m <sup>2</sup> =	Ø 130,000	\$ 15,220
37,000 m <sup>2</sup>	Improved street at	Ø 20/m <sup>2</sup> =	740,000	86,650
23,880 m <sup>2</sup>	Sidewalk at	Ø 50/m <sup>2</sup> =	1,194,000	139,810
15,920 m	Curb and gutter at	Ø 75/m =	1,194,000	139,810
9,000 m	Storm sewer at	Ø180/m =	1,620,000	189,695
9,230 m	Sanitary sewer at	Ø120/m =	<u>1,108,000</u>	<u>129,750</u>
TOTAL AREA 2			Ø5,986,000	\$ 700,935

TOTALS AREAS 2 & 3 Ø10,203,650 \$1,194,805

services lot with a sanitary core and a minimum structure. Considering only the site and services with a sanitary core, 85% of the renters now pay more. 68% of the families surveyed indicated a willingness to pay more than \$24 (¢200) per month to either buy, build, or remodel a house.

Table V.D.5. shows the range of loan amounts, monthly payments and family income required for the various shelter solutions. This breakdown clearly demonstrates that the housing costs and corresponding charges are well within the payment capacity of the target group.

a. Legalizing Tenancy

The range of loans will be \$59 (¢500) to \$117 (¢1,000) per unit for this activity. The range of terms will be from 1 year to 2 years at 12% interest. A maximum loan of \$117 for 2 years would require a payment of \$5.50 (¢47) per month. Assuming that 10% of family income is available for payment, a monthly income of \$55 (¢470) would be required. This would be affordable by a family in the third income percentile of both the San José Metro Area and the tugurios. Assuming only 5% of family income is available for payment, a monthly income of approximately \$110 (¢940) would be required, which represents families at about the 14th percentile of the SJMA.

b. Land Purchase for Legalizing Tenancy

Loans ranging from \$585 (¢5,000) to \$1,756 (¢15,000) per unit are anticipated for this activity. Terms will vary from 7 to 15 years at 12%. Again considering the maximum loan of \$1,756 for 15 years, a monthly payment of \$21.10 (¢180) would be required. Assuming 15% of family income is available for payment, a monthly income of \$141 (¢1,200) would be required. This would be affordable by families as low as the 22nd percentile in the San José Metropolitan Area and the 30th percentile in the tugurios. A median loan of \$1,171 (¢10,000) could reach families at the 11th income percentile of the SJMA.

c. Home Improvement Loans

This activity proposes a range of loans of \$234 (¢2,000) to \$1,405 (¢12,000). Terms will range from 5 to 10 years at 12% interest. A maximum loan of \$1,405 for 10 years would imply a monthly payment of \$20.20 (¢172). Again assuming 10% of family income for payment, the required monthly income

TABLE V.D.5.

AFFORDABILITY OF PROPOSED SHELTER SOLUTIONS

<u>Type of Solution</u>	<u>Range of Unit Loans</u>		<u>Range of Terms in Years 12% Interest</u>	<u>Probable 1/ Range of Monthly Payments</u>		<u>% of Income For Payment</u>	<u>Family Income</u>		<u>Metro Area Income Percentile Reached</u>		<u>Tugurio Income Percentile</u>	
	<u>Low</u>	<u>High</u>		<u>Low</u>	<u>High</u>		<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>	<u>High</u>
Legalization of Tenancy	₪ 500 \$ 58	1,000 117	1 to 2	44 5.15	89 10.40	10	440 51.5	890 104.20	3rd 13th	13th	3rd 16th	16th
Lot Purchase	₪ 5,000 \$ 585	15,000 1,750	7 to 15	88 10.30	180 21.10	10 to 15	880 103.0	1,200 140.50	13th 22nd	22nd	15th 30th	30th
Home Improvement Loans	₪ 2,000 \$ 235	12,000 1,405	5 to 10	44 5.15	172 20.15	10 to 15	440 51.50	1,148 134.40	3rd 20th	20th	3rd 28th	28th
Sites and Services	₪ \$	11,875 1,390	10 to 20	131 15.30	170 19.90	15 to 20	850 99.50	873 102.25	12th 13th	13th	14th 15th	15th
Sites and Services with Core Unit	₪ \$	23,750 2,780	15 to 25	250 29.30	285 33.40	15 to 20	1,425 166.85	1,667 195.15	28th 35th	35th	40th 48th	48th

1/ The probable range of monthly payments are calculated using the lowest loan amounts with the shortest pay back period except for legalization of tenancy, where the larger loan was used with the shorter period due the small amount of the loans.

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would be \$201 (C1,720), which corresponds to the 37th income percentile. A median loan of \$820 (C7,000) with the same terms could be covered by a family at the 16th income percentile of the San José Metropolitan Area or at the 21st percentile of the marginal barrios.

d. Sites and Services

The average unit loan for these solutions will be approximately \$1,391 (C11,875). Terms will range from 10 to 20 years at 12%. A \$1,390 loan for 15 years would call for a \$16.60 (C142) monthly payment. Assuming that 20% of family income were available for debt service, this would imply a family income of \$83 (C710) per month, which corresponds roughly to the 9th income percentile of the Metropolitan Area. If only 15% of family income were dedicated to payment, the loan could be covered by families at the 15th income percentile, (18th percentile in the tugurios).

e. Sites and Services with Core House Unit

The estimated loan for these solutions will be about \$2,781 (C23,750). Terms will range from 15 to 25 years at 12%. Assuming 20 years terms and 20% of family income dedicated to payment, a payment of \$30.70 (C262) and an income of \$153 (C1,310) would be required. This would represent the income of families at the 26th percentile in the San José Area. If the terms were for 15 years, the loan would be affordable by families at the 29th percentile.

f. Community Infrastructure Projects

A range of assessments from a low of \$234 (C2,000) to a high of \$703 (C6,000) per family equivalent is assumed. In general these assessments will be financed over a 10 year period at 10% interest. Payments will be quarterly. Under these terms the lowest quarterly payment would be \$9.40 (C80) and the highest would be \$28.00 (C239). Effect on family income is shown below.

Percent of Monthly Family Income Required to Pay  
for Various Assessment Levels\*

<u>San José Metro Area Percentile</u>	<u>Income</u>		<u>\$234</u>	<u>\$468</u>	<u>\$702</u>
	<u>\$</u>	<u>¢</u>	<u>02,000</u>	<u>04,000</u>	<u>06,000</u>
10th	92	789	3.4%	6.7%	10.1%
20th	133	1,136	2.4%	4.7%	7.0%
30th	170	1,448	1.8%	3.7%	5.5%
40th	216	1,845	1.4%	2.9%	4.3%
50th	262	2,238	1.2%	2.4%	3.6%

\* Calculated using 10% interest 10-year period, quarterly payments.

g. Combined Solutions

An average loan for lot purchase combined with one for home improvement would require monthly payments of about \$26, which would be affordable by a family at the 30th percentile in the Metro Area and at the 41st percentile in the tugurios. The average home improvement loan, combined with the average infrastructure improvement assessment, would cost about \$18 a month, a payment which could be covered by families at the 17th Metropolitan Area income percentile and the 21st percentile of tugurio families. (Both of these cases assume that 15% of family income would be used to meet the monthly loan payments.)

A combination of the largest loans for lot purchase and home improvement at the longest terms (15 and 10 years respectively) would require a total payment of about \$41 per month; assuming that 20% of family income were available for this purpose, a family would need earnings of 01,760 (\$206) per month, which corresponds to the 38th percentile for the Metropolitan Area and the 51st percentile for the tugurios.

A family benefitted by three components of average size -- tenancy legalization, home improvement, and infrastructure improvement -- would have to meet payments of \$22 per month. Assuming 15% of the family's income goes toward these payments, these combined solutions could be afforded by families at the 24th percentile for the Metro Area and the 33rd for the tugurios.

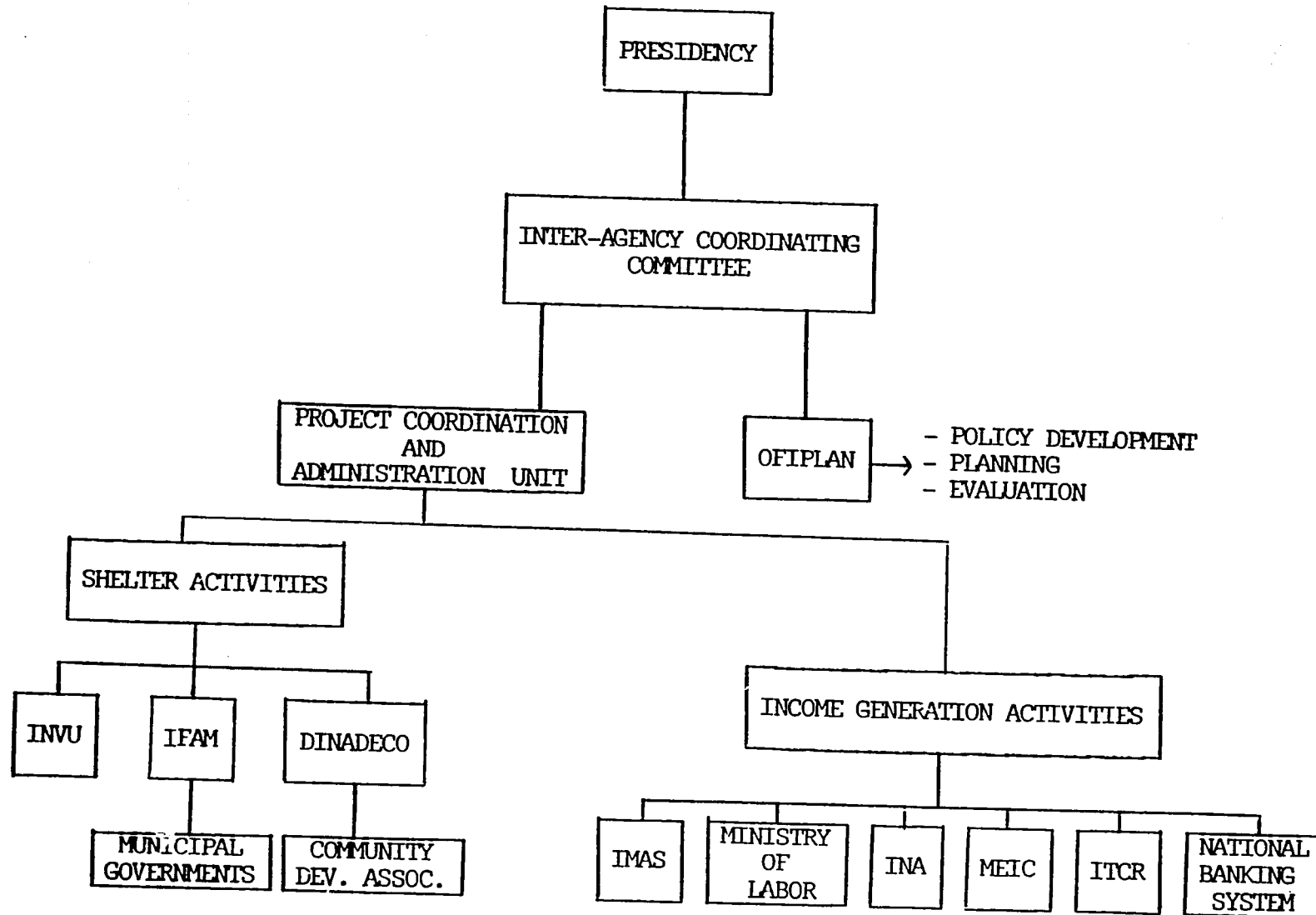
E. Institutional Analysis

1. Coordination Feasibility

This project will call for coordination of efforts among a variety of GOOCR institutions. This may be the most difficult test of the Project's overall feasibility. Although the various GOOCR institutions are familiar with the activities which they will carry out under this Project, and the institutions themselves are fairly competent, their ability and willingness to interact and to execute the project activities jointly will be crucial to the viability and effectiveness of the Project.

Preparation for the Project has provided a way to test this coordination. Over a year ago the Ministry of the Presidency called together representatives of the nine agencies shown on the following chart to prepare detailed operating plans and budgets for this Project. During this phase a number of joint surveys and studies were carried out, the need for specific linkages between agencies was identified, and improved inter-institutional programs to assist the poor were planned. This exercise was, for most participants, a breakthrough in collaboration; and the way in which disputes, misunderstandings, and other problems were resolved during this planning phase offers assurance of effective interinstitutional coordination once the Project is underway.

Through this effort, the Ministry of the Presidency has succeeded in motivating agencies that previously had had only limited operational relationships to start seeking better ways to coordinate their efforts. The unequal emphasis on assisting the poor, which had become evident after reviewing the programs of the different agencies, has slowly given way to a shared concern that the needs of this group be given priority. Nonetheless, coordination and monitoring of Project activities, as well as periodic evaluations, will be needed to ensure not only that output targets are met, but that needed steps toward further institutionalization of the system are taken. Therefore a special Project Coordination and Administration Unit will be established within the Presidency to assist in coordinating and monitoring this Project. An experienced and highly qualified Project Coordinator will be hired by the Presidency on at least a half-time basis. He will be assisted by two full-time professionals and a small clerical staff. While organizationally placed within the Presidency, the Project Coordination and Administration Unit will be supervised by and be directly responsible to a high level Inter-Agency Coordinating Committee. This Committee will be composed of key representatives of the major participating agencies, as well as of the Ministries of Finance and Presidency, and the National Planning Office (OFIPLAN). The Project Coordination and Administration Unit will be responsible for program planning and coordination. It will report on progress to the Inter-Agency Coordinating Committee, and will advise that Committee on the allocation and control of Project resources. In addition, the Unit will staff





inter-agency subcommittees as needed to ensure proper coordination of program operations involving discrete functional areas (i.e., DINADECO, IFAM, and INVU for shelter program operations; MEIC, the National Banking System, and TTCR for small industry development; INA, the Ministry of Labor and IMAS for job training and placement, etc.).

2. Policy Development, Program Planning and Evaluation

In addition to the Project coordination and monitoring function previously described, the Presidency, through the National Planning Office (OFIPLAN), will be responsible for policy formulation in the areas previously identified in the Project Description. OFIPLAN will: 1) obtain the collaboration of other agencies involved in the specific policy issues to be addressed, 2) identify the policy issues to be dealt with, 3) gather reference materials for studies or other inputs required to develop policy, 4) supervise the preparation and analysis of such studies, and 5) in general act as catalytic force for the presentation of policy alternatives to GOCR decision makers.

OFIPLAN will help the Project Coordination and Administration Unit prepare annual implementation plans for the Urban Project. It also will be responsible for undertaking studies and planning activities for the development of a Secondary Cities Project which may be submitted for AID consideration in FY80. The Project evaluation function, to be performed by OFIPLAN, will provide valuable empirical inputs to the GOCR's policy development and planning activities. OFIPLAN will design and manage the Project Evaluation System, and will ensure that evaluation results are fed back to the participating agencies and utilized for policy formulation and new project development.

This Project component represents a continuation of OFIPLAN's planning functions with respect to the Urban Project. OFIPLAN previously undertook the Urban Assessment with USAID Training Assistance and performed satisfactorily. Under the new GOCR Administration it is now clear that OFIPLAN's planning and policy development role will be strengthened; the special advisory staff of the Presidency will become less involved in this functional area. In support of the GOCR's efforts to strengthen OFIPLAN's capacity for planning and policy development, loan resources will provide technical assistance and training in areas relevant to the objectives of the Urban Project.

In summary, the Mission is confident that OFIPLAN will be able to perform the functions assigned to it under the Project given; 1) OFIPLAN's past and current performance with respect to the Project; 2) the technical assistance and training which will strengthen and expand its involvement in the Project; and 3) the high priority which the GOCR is now giving to OFIPLAN's role in policy development and planning.

### 3. Institutional Sets for Implementation

Although ten GOCR offices will have roles in this Project, an analysis by Project element -- Labor Supply, Labor Demand, Shelter, and Community Improvement -- reveals the following pattern of institutional involvement:

#### a. Labor Supply -- IMAS, MOL, and INA

The Instituto Mixto de Ayuda Social (IMAS) is a social welfare agency which calls on the poor in their homes, offering clothing and financial aid, counseling, and a small program of new housing (this activity will be discontinued under the new GOCR Administration). Under this Project, IMAS will seek out job candidates in the tugurios, direct them to the nearest Ministry of Labor Employment Service Office, and provide subsidies to INA trainees.

The Ministry of Labor and Employment Service (MOL) is charged with matching job openings, candidates, and training courses at INA, as well as administering on-the-job training programs with cooperating businesses. Job applicants will be tested and referred to firms where job vacancies exist; to on-the-job training programs; or to INA training courses to prepare for identified jobs.

The Instituto Nacional de Aprendizaje (INA) offers a wide range of basic skills, domestic science, and vocational training as well as courses in business management and accounting for small entrepreneurs. INA courses, drawn up in response to the characteristics of the job openings and candidates presented by the MOL, will be offered to about 3,000 workers under this Project. Following completion of this training, the MOL will place workers in existing job vacancies for which they have been trained.

The MOL and INA are already doing what they

will do in greater volume in this Project. The role proposed for IMAS is new; however, IMAS has the tugurio coverage to make the necessary number of contacts, and the required linkage -- the MOL Employment Service -- will be located in local IMAS offices.

b. Labor Demand - MOL, MEIC, INA, ITCR, SBN

The MOL Employment Service maintains continuous contact with employers regarding job openings in the metro area, for which it identifies potential workers. INA provides vocational training programs to ensure workers are qualified. The MOL will also assess job demand through periodic establishment surveys.

New labor demand is expected to be generated through the expansion of existing businesses and the creation of new enterprises. Small industrialists will be assisted by INA, which will train managers and by the Ministry of Economy (MEIC) Office of Small Industry and Artisanry (DGATPIA), which will give them technical and administrative assistance and prepare feasibility studies. The small entrepreneurs will also receive assistance from the Technological Institute (ITCR), which will identify, test and distribute information about appropriate labor intensive production technology to small industries. The National Banking System (SBN) will provide them with financing and credit guarantees.

The small businessman's principal contact with this network will be through DGATPIA, which will be charged with making known the availability of a wide range of services and assisting clients take advantage of them. In addition, it will follow-up on plant expansions and new production facilities with a report to the Employment Service about the job openings which have been created.

c. Shelter -- INVU, DINADECO

INVU has performed the types of activities -- assisting in the legalization of tenure, purchasing occupied lots, lending for small home improvements, and constructing sites and services projects, as simple lots or with core units -- which are included in this Project. However, its home improvement office has not made any loans in the last three years. This office will need to be reactivated and new operating procedures established in order to process the volume of loans planned and the type of loans anticipated for upgrading the existing tugurio units. RHUDO/ROCAP

recently has had experience in a similar program with BAVINIC in Nicaragua. Based on this, INVU's demonstrated capability, and the technical assistance the Institute will receive, the expansion of home improvement lending is considered feasible.

INVU has some experience in selecting customers for the legalization of tenure, land purchase and home improvement credits. However, its experience working with the income group that is the focus of this project is limited, particularly as regards the legalization of tenure in the tugurios, where obtaining a clear title is, in many cases, more complex because of quasi-legal or illegal settlement rights. For this reason INVU will undertake this activity on an experimental basis, with only 500 loans planned for lot purchase and the legalization of tenure.

Identifying clients for sites and services and carrying out these activities has already been tested on a limited basis through collaborative arrangements established by INVU and DINADECO. In effect, DINADECO will serve as the outreach agency for INVU's programs. As such it will inform residents of the tugurios about these programs and encourage them to participate in those best suited to their needs and to their ability to pay. DINADECO will also assist in organizing community residents, especially those who will participate in the sites and services programs.

d. Community Improvement -- IFAM, DINADECO, INVU, Municipalities

INVU's role in this sub-project activity will be limited largely to coordinating the initial selection of sites as well as the preliminary design of the community improvement program. INVU has had previous experience in both of these activities. In fact, much of the pre-Project planning and research for the community improvement activity was carried out by INVU.

DINADECO, acting through its office for the Metropolitan Zone, will serve as the outreach agency, working with neighborhood organizations which it has already organized or will organize. DINADECO will orient community residents on the concept of self-financed community improvements and help them revise and complete the preliminary community improvement designs prepared by INVU, so that the infrastructure projects to be carried out

reflect their perceived needs and priorities. The Metropolitan Zone office will be provided with funding for training, technical assistance and the purchase of equipment. With this added support, DINADECO should be able to fulfill its role.

IFAM will be performing a series of activities that are well-known to it. The agency will manage the HIG funds which will be lent to the municipalities to finance the community infrastructure projects. It will supervise both the design and the construction of the improvements. A unit within IFAM, whose staff will be specially trained and assisted for this purpose, will provide technical assistance to the municipalities to insure that costs are recovered by means of the valorization system. The ten metro area municipalities have had previous experience in the use of valorization systems.

The only infrastructure development not to be carried out by IFAM and the municipalities will be water and sewer improvements. Acueductos y Alcantarillados (AyA), the water and sewer authority, will design and supervise the construction of these improvements, as well as recover corresponding investments.

#### 4. Conclusions

All of the implementing agencies have been carrying out most of the functions assigned to them in the Project. The institutional modifications needed are minor, and in those cases where changes are required or where significant expansion of current activities is needed, technical assistance, training, and GOCR counterpart for staff increments are included in the Project design. The Mission is confident that the various implementing agencies are capable of carrying out their tasks, given their past performance, effective participation in Project planning, and the inputs to be made available to them under the Project.

The purpose of the Project will be to institutionalize coordination among these agencies, direct resources to the urban poor and integrate specific project objectives with overall policy development and broader urban planning efforts. The Presidency, through OFIPLAN and the special Inter-agency Coordinating Committee, will be responsible for ensuring that this purpose is accomplished. The Presidency was able to coordinate the inputs of many agencies during the lengthy planning period and has agreed to continue this process more intensively during the life of the Project. The planning, policy development, and evaluation functions

of OFIPLAN under the Project are also well within the scope of previous and future OFIPLAN activities. OFIPLAN's potential effectiveness is enhanced by its organizational location within the Presidency.

While the Mission recognizes that coordination, policy, and planning activities are complex, and that institutional arrangements for coordination are experimental, we believe that current institutional capabilities, strengthened by the proposed Project inputs, are adequate to accomplish the task.

#### F. Environmental Aspects

The level of environmental awareness in Costa Rica, and especially in the San José Metropolitan Area, is very high. This is confirmed by the impressive quantity of environmental studies which have been or are being conducted in Costa Rica. While Costa Rica shares with the rest of the world the environmental problems too often associated with population concentration and industrialization, these problems have been identified at a relatively early stage of environmental deterioration and are being carefully studied. Of equal importance, Costa Rica already has in place both the necessary legislation and the administrative mechanisms to protect her environment.

It is clear, then, that no major environmental impact will go unnoticed. While this does not imply that there will be no polluted water nor contaminated air in Costa Rica, it does indicate that an environmental analysis of reasonable magnitude would not contribute much to the level of knowledge or awareness of environmental issues in Costa Rica. In sum, the policies of the government of Costa Rica already closely reflect AID policy as outlined in Regulation 16, Section 216.1 (b).

Environmental criteria (apart from socio-economic criteria) will play an important role in the selection of sites for shelter projects. Both the need to protect and enhance the environment (e.g., by looking at uncontrolled discharge of sewage and solid waste into rivers, protection of aquifer recharge areas, preservation of valuable agricultural land, levels of physical and social urban services, etc.) and the desire to protect the population from potential environmental hazards (e.g., flooding, seismic activity, landslides, industrial air pollution, lack of essential urban services, etc.) will be taken into account explicitly.

There is already evidence that such criteria will be considered; nearly 900 of the projected sites and services beneficiaries are families living in areas subject to flooding or landslides. The GOCR has agreed to continue applying such criteria in the selection of target areas and in the qualification of individual beneficiaries, so that, for example, persons living in hazardous areas are not encouraged to remain by being given a loan for home improvements or one for clearing title to the land.

In complying with AID environmental policy, the Mission submitted an IEE in June 1977 to the Assistant Administrator, who reached a threshold decision indicating a negative determination (STATE 142801). A second review in Washington of this IEE in late 1977 determined that it did not contain sufficient information on the environmental effects of some of the Housing component activities. Since the negative determination of the original IEE still applied to the Employment Generation and Planning components, no further environmental analysis for these two components was required. A second IEE was prepared for the Housing component in February 1978, and identified only one reasonably foreseeable effect of the proposed project which might be environmentally problematic. As noted in the IEE, San José still discharges untreated sewage into the Central Valley river basin. Since a part of this Project will include an expansion of the sewage collection system, and since loans will be available to finance sewage connections, the quantity of untreated sewage being discharged into the rivers will increase as a result of this project, although the increase will not be significant.

Currently 56% of the San José sewage ends up in the rivers without treatment, while 44% is disposed of on-site. In the Project target areas 9% of the effluent goes to the rivers, while on-site disposal is attempted for 91%. The physical settings of the target areas pose serious restrictions to the use of on-site disposal methods, and the discharge is often inadequate and cause for problems in sanitation.

Five types of solutions for sewage disposal will be considered under the three elements of the shelter component of the Project.

	HOME IMPROVEMENT LOANS	COMMUNITY INFRA- STRUCTURE IMPR.	SITES AND SERVICES
HOUSE CONNECTION TO COLLECTOR/SEWERAGE	<input type="radio"/>	<input type="checkbox"/>	<input type="radio"/>
COLLECTOR CONNECTED TO SEWERAGE	<input type="checkbox"/>	<input type="radio"/>	<input type="radio"/>
COLLECTOR CONNECTED TO SEPTIC TANK (INTERIM)	<input type="checkbox"/>	<input type="radio"/>	<input type="radio"/>
COLLECTOR CONNECTED TO SEPTIC TANK (FINAL)	<input type="checkbox"/>	<input type="radio"/>	<input type="radio"/>
INDIVIDUAL SEPTIC TANK (NEW/IMPROVED)	<input type="radio"/>	<input type="checkbox"/>	<input type="checkbox"/>

Actual selection of a type of solution will be made on a project-by-project basis, utilizing criteria such as the degree of inadequacy of existing methods of disposal, the preference of the beneficiaries and the technical feasibility, given the environmental constraints and opportunities of the site. The variable site conditions which can affect the technical feasibility of a given solution are described in Chapter 3.1 of the Environmental Assessment. All new developments will be required to connect to the collection system where possible.

In 1981 the second stage of the IDB-financed sewerage improvement project will be completed. Trunk lines will have been installed in all major river beds. This will rid the rivers within the Metropolitan Area of nearly all pollution caused by effluent from the collection system.

Leading all collected effluent to one point is a prerequisite for the construction of a central treatment plant. At what time treatment will be introduced (in a future third phase) will largely depend on the findings of monitoring activities for which the Water and Sewer Authority (AyA) has equipped itself.



An Environmental Assessment prepared in April, 1978, addressing the environmental consequences of the proposed sewage upgrading activities is circulating with this Project Paper. The Assessment concludes that these proposed activities will have beneficial on-site environmental effects and will not significantly aggravate the pollution of rivers in the San José area.

VI. FINANCIAL ANALYSIS

A. Financial Plan

The Financial Plan contains a Summary Cost Estimate, Disbursement Schedule by Years and Costing of Project Outputs/Inputs. An examination of the latter shows that 57% of the total costs of the Employment Generation and Policy Planning, and Program Coordination Activities (\$11.9 million) and 92% of the cost of the Housing Activities (\$16.3 million) are for credit. The major cost in the Planning Activities will be for Technical Assistance (\$614,000). A breakdown of funds on a percentage basis for the Employment Generation and Policy Planning and Program Coordination components follows:

	<u>%</u>
1. Credit	57
2. Personnel/Operating Costs	24
3. Technical Assistance	11
4. Equipment/Materials	4
5. Training	1
6. Subsidy Payments	1
7. Vehicles	1
8. Surveys, Office Expansion/Construction, and Publications	<u>1</u>
	100%

The percentage breakdown for the housing and community infrastructure component is as follows:

	<u>%</u>
1. Credit	93
2. Personnel and Operating Costs	5
3. Technical Assistance	2
4. Equipment, Materials, Vehicles	<u>1</u>
	100%

The Project budgets were developed in collaboration with the various Ministries involved in the Urban Project. The ratio of AID development Loan funds to the GOCCR counterpart is 41 to 59. The ratio increases to 60% AID and 40% GOCCR when the calculations

include the Housing Guaranty Funds and the corresponding GOCR contribution. Both ratios exceed the FAA Section 110(A) requirement for host country contributions, and are consistent with the DAP strategy.

B. Financial Analysis of Participating Institutions

The National Banking System (SBN) will be responsible for managing the credit funds under the Employment Generation component of the Project. The SBN entities managing the credit funds will be the Banco Central and four nationalized commercial banks. The four state commercial banks are multifunctional and compete for business like private institutions. They are the only banks allowed to receive demand and time deposits, and have access to the Banco Central's rediscount facility. All four banks are financially sound and reasonably profitable institutions. Their total assets have been growing at a rate of 16.7% p.a. in nominal terms during the 1971-76 period, more than the average inflation rate of about 13% during those years. Their total assets reached just under \$1 billion as of December 31, 1976. Their combined net profits amounted to \$3.6 million in 1976, equivalent to 11% on average equity, and are expected to remain at that yearly level over the next few years. The SBN's capability to effectively manage many lines of credit is well established.

In the past, INVU and IFAM have successfully carried out activities similar to those for which they will be responsible under this Project. A detailed financial analysis of INVU and IFAM, along with audited financial statements, cash flows showing the financial feasibility of proposed shelter and community infrastructure activities, and proposed disbursement schedules, are contained in Annex II-F.

Summary Cost Estimate  
Thousands of Dollars

<u>Type of Expenditure</u>	<u>Source of Funds</u>			<u>Total</u>
	<u>AID</u>		<u>GOCR</u>	
	<u>Loan</u>	<u>HIG</u>		
Technical Assistance	1,703		-	1,703
Equipment/Materials	506.5		-	506.5
Vehicles	157		-	157
Training	67.5		-	67.5
Surveys	30		60	90
Credit	3,000	11,400	7,480	21,880
Office Expansion/Construction	16		-	16
Operating/Personnel			3,700	3,700
Subsidies			150	-150
Publications	20		-	20
	<u>5,500</u>	<u>11,400</u>	<u>11,390</u>	<u>28,290</u>

DISBURSEMENT SCHEDULE BY YEARS

	<u>1979</u>		<u>1980</u>		<u>1981</u>		<u>TOTAL</u>	
	<u>AID</u>	<u>GOCR</u>	<u>AID</u>	<u>GOCR</u>	<u>AID</u>	<u>GOCR</u>	<u>AID</u>	<u>GOCR</u>
<u>Labor Supply</u>								
1. Forecasting Job Demand	42.5	35	-	66	-	66	42.5	167
2. Contact, Referral and Placement	182	315	47	350	8	386	237	1,051
3. Job Training	137	248	130	275	100	307	367	830
<u>Labor Demand</u>								
1. Technical Assist.	49	168	108.5	244	87	338	244.5	750
2. Training	7	60	8	90	-	100	15	250
3. Credit	800	1000	1,150	1,350	550	950	2,500	3,300
4. WOOF	288	170	498	330	268	-	1,054	500
<u>Urban Policy, Planning Project Coordination/ Planning &amp; Evaluation Inputs</u>								
1. Policy Level	125	-	163	-	150	-	438	-
2. Project Coordination & Monitoring	22	30	17	35	17	35	56	100
3. Project Evaluation	63	-	33	-	24	-	120	-
<u>Shelter &amp; Community Infrastructure *</u>								
1. Home Improvement	10	-	5	-	-	-	15	-
2. Community Infrastructure	35	-	20	-	5	-	60	-
3. Community Dev.	141	152	50	305	10	305	201	762
4. Assistant Project Coordinator	75	-	75	-	-	-	150	-
	<u>1,976.5</u>	<u>2,178</u>	<u>2,304.5</u>	<u>3,045</u>	<u>1,219</u>	<u>2,487</u>	<u>5,500</u>	<u>7,710</u>

\* A schedule of HIG disbursements is included in Annex II.F.

Costing of Project Outputs/inputs  
Thousands of Dollars

	<u>Employment</u>	<u>Housing</u>	<u>Planning</u>	
AID Appropriated				
	774	315	614	
	441.5	65	-	
	111	46	-	
	67.5	-	-	
	30	-	-	
	3,000	-	-	
	16	-	-	
	20	-	-	
				- 103 -
Other U.S.				
	-	11,400	-	
GOCR				
	2,838	762	100	
	3,800	3,680	-	
	60	-	-	
	150	-	-	
	11,308	16,268	714	

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VII. IMPLEMENTATION PLAN

A. USAID Monitoring & Administration Responsibilities

1. Monitoring Responsibilities

The USAID Urban Development Office will monitor the project, and will assist the GOCR with contracting and procurement under the loan. It will review plans and specifications for direct portions of the loan to include technical assistance and training programs for workers and small businessmen, as well as special studies to be carried out in the areas of urban policy, planning and programming. It will also maintain close contact with the intermediate credit institutions and the Central Bank, and will review selection criteria and sub-lending progress for non-direct portions of the loan.

USAID will, in addition, review and approve the system which will be established for the Guaranty Fund, and the organizational models which will be developed for the 3 experimental "Worker Owned and Operated Firms" (WOOFs). Prior to final approval of sub-loans for the three WOOFs by the Inter-Agency Coordinating Committee and the participating banks, the Mission will review the sub-loan file to determine that adequate managerial talent will be provided and that the projects are financially, technically, and economically feasible.

RHUDO/ROCAP will have primary responsibility for monitoring GOCR performance under the Housing Guaranty Component of the Project. This activity will involve the review and approval of plans and specifications for specific shelter and community infrastructure projects to insure, inter-alia, that the final costs can be afforded by the intended beneficiaries. Further, the Project Delivery Plan, which is included in Annex II-F, will be updated periodically, and will be used to monitor the timing and volume of the delivery of solutions and the drawdown of HIG and GOCR resources. The assistant project administrator for the shelter and community infrastructure component will assist RHUDO/ROCAP and USAID/CR in performing these tasks. The Mission's Urban Development Office will be responsible for monitoring the implementation of this component as it relates to the overall goal and purpose of the Project.

## B. Disbursement Procedures

A three-year disbursement period will be required for the Development Loan portion of the Project. (See disbursement plan in Section VI-D.) A special project account will be established in the Ministry of Finance to be used in making disbursements for sub-project activities which have been approved by the Inter-Agency Coordinating Committee. AID credit funds will be disbursed through the Ministry of Finance by means of an initial advance, based on anticipated disbursement schedules. AID disbursements for other activities financed under the loan -- e.g., worker/small business training, studies and evaluations, and training and technical assistance -- will be made in accordance with standard AID direct reimbursement procedures. No elements of this loan are acceptable for use of the fixed amount reimbursement (FAR) method.

Housing Guaranty Funds will be invested over a period of three and one half years by INVU, in the amount of \$8.4 million, and by IFAM, in the amount of \$3.0 million, to provide long- and medium-term financing for shelter and community infrastructure projects.

The drawdown of HIG funds will be supported by evidence of completed investments; that is, by the presentation of eligible mortgages for the shelter projects and by a certification of work completed for community infrastructure projects. It is anticipated that HIG funds will be advanced to serve as interim financing for both IFAM's and INVU's projects in an amount of about \$2.0 million. The advance will be replenished on the basis of cash flow projections.

HIG funds will be disbursed by a U.S. investor selected by Costa Rica with the concurrence of AID, and will be deposited in a special project account in the Ministry of Finance. Requests for drawdowns of HIG funds for the reimbursement of investments or for replenishment of the advance will be originated by INVU and IFAM. Such requests will require the approval of the Inter-Agency Coordinating Committee and of AID before funds can be disbursed by the U.S. Investor.

## C. Procurement Procedures

The selection of consultants and contractors, procurement of equipment and materials, shipping and insuring will be carried out in accordance with the standard procedures called for in the Project Agreement. It is anticipated that most goods and services procured under the project will be contracted for directly by the borrower, with AID's prior concurrence.



Appropriate reports will be obtained concerning procurement requirements, including 50/50 shipping and source and origin. These reports and requirements will be monitored by the Capital Development Office and by the Controller's Office through the review of vouchers and supporting documentation submitted in substantiation of reimbursement requests.

Contracting under the shelter component of the project will be done by INVU, and under the community infrastructure component by IFAM in accordance with GOCR practices. AID (through RHUDO/ROCAP) will review bid and contracting procedures, pre-bid estimates, and final contracts in accordance with standard HIG program procedures.

D. Conditions, Covenants and Negotiating Status

1. Conditions Precedent to Disbursement of the AID Development Loan

a. Conditions Precedent to Initial Disbursement

- i. The GOCR will present evidence that an Inter-Agency Coordinating Committee, composed of representatives of the Ministry of the Presidency, OFIPLAN, and the Ministry of Finance, as well as the participating agencies, has been formally established, and that a Project Coordination and Administration Unit has been created and staffed within the Ministry of the Presidency.
- ii. The GOCR will submit, in form and substance satisfactory to AID an implementation plan and estimated budgets for all loan-financed activities.
- iii. Inter-Agency agreements, which define work plans and procedures will be signed by participating Ministries and implementing agencies.

b. Conditions Precedent to Disbursement for Small Industry Component

- i. The GOCR shall submit, in form and substance satisfactory to AID, a copy of its small industry sub-lending regulations, including sub-project and sub-borrower eligibility criteria, and an implementation plan for training small industrialists.
  - ii. Evidence that MEIC's Small Industry and Artisan Department has hired and trained sufficient field staff to respond to the projected technical assistance requirements of small industrialists.
  - iii. Evidence that the GOCR has established a Productive Credit Guarantee Program (PCGP) or similar credit guaranty fund mechanism, acceptable to AID, which contains adequate contingent reserves to cover potential losses on sub-loans made under the Project.
- c. Conditions Precedent to Sub-Lending for Worker-Owned and Operated Firms (WOOFs)
- i. Evidence that adequate managerial talent has been obtained; and that each project to be financed is financially, technically and economically feasible.

E. Special Covenants

1. Maintenance for Small Industry Fund

a. Except as AID may otherwise agree in writing, the GOCR agrees that it will maintain the level of the Small Industry Credit Portfolio at no less than \$11.4 million for at least five years subsequent to the end of the loan.

2. Borrower Contribution

a. The GOCR agrees that of its counterpart contribution to the project, no less than \$3.3 will be provided for sub-lending to small industries.

3. Use of Sub-Loans

The GOCR agrees to utilize repayments of principal from AID-funded sub-loans only for those purposes for which AID loan funds are authorized.

4. Interest Rate Study

The GOCR agrees to carry out with loan financing, by the end of the second year of the project, an interest rate study to analyze the long-range political, social, and economic consequences of lending to small businesses at subsidized rates.

F. Conditions, Covenants, and Negotiating Status for HIG Component

The shelter and community infrastructure component of the Project will require signing four documents. The Guaranty Agreement, signed by AID, will assure the U.S. Investor against any loss. The Host Country Guaranty, signed by the Government of Costa Rica, will provide a similar assurance to AID. The Loan Agreement will set forth the terms of the loan and be signed by the Ministry of Finance, acting for the Borrower, Costa Rica, and the U.S. Investor. Finally AID, INVU, IFAM, DINADECO and the Ministry of Finance will subscribe the Implementation Agreement which will set forth the implementation procedures and conditions precedent to disbursements for HIG-financed projects.

The Implementation Agreement will be negotiated and signed first. Subsequently the other three documents will be negotiated and signed. The Loan Agreement and the Host Country Guaranty will require ratification by the Congress of Costa Rica before they can become effective.

1. Conditions Precedent to Signing HIG Implementation Agreement

Prior to the signature of the Implementation Agreement, INVU and DINADECO, IFAM and DINADECO and INVU and IFAM will have signed inter-agency agreements establishing their work plans and operational procedures for shared sub-project activities.

2. Conditions Precedent to Disbursement of HIG Funds

Prior to the first disbursement of HIG funds, the GOCR will have to meet the following conditions:

a. An agreement will have been signed between INVU, IFAM and the Ministry of Finance describing the latter's functions as Borrower of HIG funds, establishing a special account, and establishing procedures for disbursing funds from the account to INVU and IFAM.

b. Training activities for the staff of IFAM's valorization unit and of DINADECO's Metropolitan Office shall have begun; IFAM will have completed an initial evaluation and have developed revised procedures to be used in implementing the valorization system for community infrastructure projects.

3. Special Covenants

a. The GOCR will agree to provide, as needed during the life of the project, \$3,680,000 in counterpart financing to INVU and IFAM.

b. The GOCR will agree to provide the necessary budget to establish and maintain the planned staffing levels needed by INVU, IFAM and DINADECO to carry out sub-project activities.

## VIII. EVALUATION PLAN

Because this Project is concerned with the development of new systems for employment generation and housing improvement, both of which may be replicated in other urban areas, detailed evaluations will be done by OFIPLAN with AID support. These evaluations will take place at the output and purpose/goal levels and focus on implementation progress and the overall impact of Project activities on the urban poor target group.

Additionally, annual evaluations will be conducted jointly by the GOCR and AID and cover such issues as:

1. Utilization of loan (drawdowns);
2. Timeliness and nature of counterpart contributions;
3. Relevance and effectiveness of the supporting technical assistance activities;
4. Effectiveness of institutional arrangements and coordination (including both AID and GOCR arrangements);
5. Extent of local level participation in Project implementation activities; and
6. Assessment of individual components in terms of compliance with lending criteria and effectiveness in implementation.

The income/employment and housing components of the Project will be evaluated individually, although the relationships between them and the degree to which they mutually support one another will also be analyzed. Project performance at family, community, and institutional levels will be measured for both components. Detailed evaluation plans will be developed early in the Project. A brief summary of major points follows.

### A. Employment Generation

Employment, income, housing, and sociological data were collected for the tugurio poor in the May 1977 Household and Adult Surveys. These data, combined with data from the 1973 Population Census and 1976 Ministry of Labor Employment Survey, comprise the baseline measures. To the extent possible this information will be collated into neighborhood profiles, so that project impact can be measured through periodic surveys.

However, as pointed out in the recent Urban Sector Assessment, there is great mobility within San José. Therefore, "...anti-poverty programs in any given area will likely attract people from other areas. This gives rise to two problems: (a) net improvements based on local before-and-after measurements...may appear to be zero, even though people are being helped; (b) those who take first advantage of local programs may be outsiders, moving in for that very purpose. These are likely not to be the lowest 20 percent" (p. 77). Efforts therefore will have to be made to measure benefits in terms both of (a) individuals served (are they in the lowest 20, 30 or 40 percent?) and (b) the net effect on the target community (do benefits accrue to permanent members or outsiders, or to local people who then leave?).

In more specific terms, Project impact on families and individuals will be evaluated by looking at:

- increases in net family income
- increased employment opportunities (reduced unemployment)
- increased labor productivity.

These factors will be measured for both project participants and a control group through periodic surveys -- most likely at months 18 and 36 of the Project.

Community impact will also be measured through periodic surveys which look at both housing and employment activities. The proportion of people within target communities who are living in inadequate housing and/or are unemployed and/or are living below the income poverty line will be measured.

At the institutional level, the efficiency and effectiveness of the GOCCR's placement and training services will be measured by looking at numbers of persons served and costs. The recent Adult Survey showed little use of the Government Employment Service by tugurio residents. Thus the degree to which the poor begin to use this service will help indicate the extent to which the project purpose has been achieved. The success of moving from market identification to credit to production to employment will also be evaluated and weak links identified. Special attention will be given to worker-owned industries to evaluate the effectiveness of their operations, as well as identify who the worker-

owners are and the extent to which they represent San José's poor. The success of banking reforms in increasing the demand for credit will also be monitored. An evaluation of the expansion of the small business (DGATPIA) extension program will be performed at the end of the second year to reassess DGATPIA's institutional capacity to carry out its increased technical assistance-training responsibilities. Increased levels of technical assistance will be provided if this evaluation indicates the need.

B. Shelter and Community Improvement

Implementation will be evaluated against planned targets, particularly the housing and infrastructure objectives outlined in the Logical Framework. In addition, the impact of the program on target families under the sites and services and community upgrading components of the project will be measured through sample interviews.

Baseline interviews will be conducted at the point of sub-project selection, with the participation of neighborhood groups. Subsequent interviews will be held in months 18 and 36 of the project. These interviews will go beyond a discussion of physical outputs and look at attitudinal and perceived quality of life changes.

C. Data and Financial Requirements for Evaluation

Additional baseline data will need to be collected during initial project stages for the Employment Generation and Shelter components. There will also be periodic surveys at months 18 and 36 of the project. Detailed plans for the baseline and subsequent survey requirements will be worked out as part of the Project, probably during the time in which Conditions Precedent are being met. It is estimated that all survey, data processing, and consultant costs will be \$120,000.

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ANNEX I-A

CERTIFICATION PURSUANT TO SECTION 611(e) OF THE  
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Stephen P. Knaebel, the principal officer of the Agency for International Development in Costa Rica, having taken into account among other factors the maintenance and utilization of projects in Costa Rica previously financed or assisted by the United States, do hereby certify that in my judgment Costa Rica has both the financial capability and the human resources capability to effectively maintain and utilize the Project: URBAN EMPLOYMENT AND COMMUNITY IMPROVEMENT.



Stephen P. Knaebel

Director, USAID/Costa Rica



SC(1) - COUNTRY CHECKLIST

Listed below are, first, statutory criteria applicable generally to FAA funds, and then criteria applicable to individual fund sources: Development Assistance and Security Supporting Assistance funds.

A. GENERAL CRITERIA FOR COUNTRY

- |  |   |
|--|---|
| 1. <u>FAA Sec. 116.</u> Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State determined that this government has engaged in consistent pattern of gross violations of internationally recognized human rights?   | The contemplated assistance to be provided under the Project will benefit the urban poor of San José: the unemployed, small poor businessmen, and needy families living in substandard housing. |
| 2. <u>FAA Sec. 481.</u> Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? | No  |
| 3. <u>FAA Sec. 620(a).</u> Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?  | No  |
| 4. <u>FAA Sec. 620(b).</u> If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?  | Yes   |
| 5. <u>FAA Sec. 620(c).</u> If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?  | No  |
| <u>FAA Sec. 620(a) (1).</u> If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?  | No  |

- A
7. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia or Laos? No
8. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression? No
9. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property? No
10. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason? No, the Administrator has not considered denying assistance to Costa Rica.
11. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, Costa Rica has not imposed any penalty or sanction against any U.S. fishing activities in international waters.
- a. has any deduction required by Fishermen's Protective Act been made? N/A
- b. has complete denial of assistance been considered by AID Administrator? N/A
12. FAA Sec. 620(q); App. Sec. 504. (a) Is the government of the recipient country in default on interest or principal of any AID loan to the country? (b) Is country in default exceeding one year on interest or principal on U.S. loan under program for which App. Act appropriates funds, unless debt was earlier disputed, or appropriate steps taken to cure default? No  
No
13. FAA Sec. 620(s). "If contemplated assistance is development loan (including Alliance loan) or security supporting assistance, has the Administrator taken into account the percentage of the country's budget which is for military expenditures, the amount of foreign exchange spent on military equipment and the amount spent for the purchase of sophisticated weapons systems?" (An affirmative answer may refer to the record of the taking into account, e.g.: "Yes as reported in annual report on implementation of Sec. 620(s).") "This report is prepared at the time of approval by the Administrator of the Operational Year Budget." Yes, as reported in annual report on implementation of Sec. 620(s).

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\* Upward changes in the Sec. 620(s) factors occurring in the course of the year, of sufficient significance to indicate that an affirmative answer might need review should still be reported, but the statutory checklist will not normally be the preferred vehicle to do so.) \*

14. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No

15. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? Costa Rica has no problems in meeting its U.N. obligations.

16. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? No.

17. FAA Sec. 666. Does the country object, on basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. there to carry out economic development program under FAA? No

18. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.? No

19. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate? No

## B. FUNDING CRITERIA FOR COUNTRY

### 1. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment. Yes

b. FAA Sec. 201(b)(5), (7) & (8); Sec. 208; 211(a)(4), (7). Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(1) Agriculture output has maintained a steady growth rate in recent years.

- (2) Creating a favorable climate for foreign and domestic private enterprise and investment.
- (3) Increasing the public's role in the developmental process.
- (4) (a) Allocating available budgetary resources to development.
- (b) Diverting such resources for unnecessary military expenditure and intervention in affairs of other free and independent nations.
- (5) Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.
- (6) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.
- (2) Costa Rica maintains an excellent climate for investment and private enterprise. It offers political stability, a democratic process, constitutional guarantees, equal rights for foreigners and incentives to foreign investors.
- (3) The public is encouraged to take part in development. Certain activities of this Loan will promote community and self-help efforts.
- (4a) The great majority of the National Budget funds goes for economic and social development.
- (4b) Costa Rica has no military and does not intervene in the affairs of other countries.
- (5) Substantial progress has been and is still being made in the area of tax collection and tax fund redistribution. Basic individual freedoms and free enterprise are respected.
- (6) Costa Rica responds rapidly to the concerns of its people, and clearly demonstrates effective self-help measures.

c. FAA Sec. 201(b), 211(a). Is the country among the 20 countries in which development assistance loans may be made in this fiscal year, or among the 40 in which development assistance grants (other than for self-help projects) may be made?

d. FAA Sec. 115. Will country be furnished, in same fiscal year, either security supporting assistance, or Middle East peace funds? If so, is assistance for population programs, humanitarian aid through international organizations, or regional programs?

2. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the country engaged in a consistent pattern of gross violations of internationally recognized human rights? Is program in accordance with policy of this Section?

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance?

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

No

N/A

N/A

N/A

It is among the 20 countries in which Development Loans may be made.

3C(2) - PROJECT CHECKLIST

Listed below are, first, statutory criteria applicable generally to projects with FAA funds, and then project criteria applicable to individual fund sources: Development Assistance (with a sub-category for criteria applicable only to loans); and Security Supporting Assistance funds.

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

A. GENERAL CRITERIA FOR PROJECT.

1. App. Unnumbered; FAA Sec. 653(b)

(a) Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the project;

(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that figure plus 10%)?

The Committees on Appropriations of Senate and House were notified of this Project through the Congressional Presentation, and a Congressional Notification Advising of AID's intention to increase the size of the Loan.
2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?
 

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

The only further action needed is the legislative ratification. This action has never hindered the orderly accomplishment of project purposes to date.
4. FAA Sec. 611(b); App. Sec. 101. If for water or water-related land resource construction, has project met the standards and criteria as per Memorandum of the President dated Sept. 5, 1973 (replaces Memorandum of May 15, 1962; see Fed. Register, Vol 38, No. 174, Part III, Sept. 10, 1973)?
 

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

Yes

A.

6. FAA Sec. 209, 619. Is project susceptible of execution as part of regional or multi-lateral project? If so why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate?
7. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
8. FAA Sec. 601(b). Information and conclusion on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
9. FAA Sec. 612(b); Sec. 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?

No

The activities of the Project intend to encourage the efforts of Costa Rica in all the items listed.

Improved production practices and better-trained employees will make Costa Rica a more favorable country in which to invest. The Housing Investment Guaranty Program in the Project is private U.S. participation in Costa Rica's assistance program.

Normal Project disbursement procedures assure this.

No.

B. FUNDING CRITERIA FOR PROJECT1. Development Assistance Project Criteria:

- a. FAA Sec. 102(c); Sec. 111; Sec. 281a. Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions?

The project is designed to provide urban poor in San Jose with occupational skills necessary for employment and credit and technical assistance to small businessmen for expansion. By increasing the demand and supply for labor, the Project effectively involves the poor.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g., a, b, etc. -- which corresponds to source of funds used. If more than one fund source is used for project, include relevant paragraph for each fund source.]

- |  |     |
|--|-----|
| (1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers;   |     |
| (2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor;   | N/A |
| (3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; | N/A |
| (4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:  | N/A |
| (a) technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;   | N/A |
| (b) to help alleviate energy problem;  | N/A |
| (c) research into, and evaluation of, economic development processes, and techniques;  | N/A |
| (d) reconstruction after natural or manmade disaster;  | N/A |
| (e) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;  | N/A |
| (f) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.   | Yes |

- (5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 110(a); Sec. 208(e). Is the recipient country willing to contribute funds to the project, and in what manner has or will it provide assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or has the latter cost-sharing requirement been waived for a "relatively least-developed" country)?

d. FAA Sec. 110(b). Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing?

e. FAA Sec. 207; Sec. 113. Extent to which assistance reflects appropriate emphasis on; (1) encouraging development of democratic, economic, political, and social institutions; (2) self-help in meeting the country's food needs; (3) improving availability of trained worker-power in the country; (4) programs designed to meet the country's health needs; (5) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and Voluntary Agencies; transportation and communication; planning and public administration; urban development, and modernization of existing laws; or (6) integrating women into the recipient country's national economy.

f. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

Project will directly impact on 1, 3 and 5 and indirectly impact on 6.

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g. FAA Sec. 201(b)(2)-(4) and -(8); Sec. 201(e); Sec. 211(a)(1)-(3) and -(5). Does the activity give reasonable promise of contributing to the development: of economic resources, or to the increase of productive capacities and self-sustaining economic growth; or of educational or other institutions directed toward social progress? Is it related to and consistent with other development activities, and will it contribute to realizable long-range objectives? And does project paper provide information and conclusion on an activity's economic and technical soundness?

The Project will directly contribute to the development of economic resources and to the increase in production capacities. It is consistent with both AID's and the GOCR's development objectives. The Project Paper contains information and conclusions on the project's economic and technical feasibility.

h. FAA Sec. 201(b)(6); Sec. 211(a)(5), (6). Information and conclusion on possible effects of the assistance on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving or safeguarding the U.S. balance-of-payments position.

The Project provides for the procurement of both commodities and technical assistance, much of which is expected to come from U.S. sources.

## 2. Development Assistance Project Criteria (Loans only)

a. FAA Sec. 201(b)(1). Information and conclusion on availability of financing from other free-world sources, including private sources within U.S.

Other international lending institutions have not indicated an interest in financing the project described in the PP. -

b. FAA Sec. 201(b)(2); 201(d). Information and conclusion on (1) capacity of the country to repay the loan, including reasonableness of repayment prospects, and (2) reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.

The country appears capable of repaying the AID Loan. The terms of the AID Loan appear reasonable and legal under the laws of the U.S. and the host country.

c. FAA Sec. 201(e). If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to AID an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?

Yes

d. FAA Sec. 201(f). Does project paper describe how project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development?

Yes

e. FAA Sec. 202(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources?

Yes

f. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?

N/A

3. Project Criteria Solely for Security Supporting Assistance

FAA Sec. 531. How will this assistance support promote economic or political stability?

N/A

4. Additional Criteria for Alliance for Progress

[Note: Alliance for Progress projects should add the following two items to a project checklist.]

a. FAA Sec. 251(b)(1), -(8). Does assistance take into account principles of the Act of Bogota and the Charter of Punta del Este; and to what extent will the activity contribute to the economic or political integration of Latin America?

Yes.

b. FAA Sec. 251(b)(8); 251(h). For loans, has there been taken into account the effort made by recipient nation to repatriate capital invested in other countries by their own citizens? Is loan consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress (now "CEPCIES," the Permanent Executive Committee of the OAS) in its annual review of national development activities?

Yes. The loan is consistent with the CEPCIES findings concerning Costa Rica.

## STATUTORY CHECKLIST HG PROGRAM

## COSTA RICA

Section 222(b)

The proposed guaranty will enable financing of self liquidating housing projects in Latin America for lower income families and persons as provided in Section 222(b)(3).

Section 222(c)

The total face amount of the guaranties issued and outstanding at any one time shall not exceed \$1,030,000,000.

Section 223(a)

The AID Guaranty fee will be in an amount authorized by AID in accordance with its delegated powers.

Section 223(f)

The maximum rate of interest allowable to the eligible U.S. investor, to be prescribed by the administrator, will not be more than one per cent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223(h)

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 223(j)

(1) Costa Rica is a country that is presently receiving development assistance under Chapter 1, Part I of the Act.

(2) The proposed housing project will be coordinated with and complimentary to other development assistance to Costa Rica, in particular with the related assistance being proposed for Employment and Productivity, Urban Planning, Policy and Program Coordination.

(3) The proposed housing project will be designed to demonstrate suitability and feasibility of particular kinds of housing or of financial or institutional arrangements involving inter alia sites and services, home improvements, community improvements, etc.

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ANNEX I-B

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The project is designed and planned by AID so that at least ninety per cent (90%) of the face value of the proposed guaranty will be issued for housing suitable for families with incomes below the median income (below the urban median income for the housing in urban areas) in Costa Rica.

The face value of guaranties issued with respect to Costa Rica in this fiscal year will not exceed \$25 million nor will the average face value of all housing guaranties issued in this fiscal year exceed \$15 million.

Section 238(c)

The Guaranty will cover only lenders who are "eligible investors" as defined in this section of the act at the time the guaranty is insured.

Section 620

No section 620 sanctions are applicable.



REPUBLICA DE COSTA RICA  
MINISTRO DE HACIENDA

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ANEX I-C  
Page 1 of 3

26 de julio de 1978

Señor  
Stephen P. Knaebel  
Director  
USAID/Costa Rica  
San José

Estimado señor Knaebel:

El Gobierno de Costa Rica emprenderá muy pronto el Programa de Desarrollo Urbano, por medio del cual se propone dar solución a problemas que se presentan en el Area Metropolitana de San José, tales como desempleo, bajos ingresos, malas condiciones de vivienda, infraestructura inadecuada, etc. El proyecto, diseñado durante los últimos meses por representantes del Gobierno de Costa Rica y funcionarios de la Agencia para el Desarrollo Internacional, involucrará la coordinación de varias instituciones nacionales, a saber: el Ministerio de la Presidencia, el Instituto Mixto de Ayuda Social, el Ministerio de Trabajo, el Instituto Nacional de Aprendizaje, el Ministerio de Economía, Industria y Comercio, la Dirección Nacional de Desarrollo de la Comunidad, el Sistema Bancario Nacional, el Instituto Nacional de Vivienda y Urbanismo, el Instituto de Fomento y Asesoría Municipal y la Oficina de Planificación Nacional y Política Económica.

El proyecto tendrá una duración de tres años y su objetivo es el mejoramiento de las condiciones de vida de los habitantes más pobres de San José, a través de un sistema de coordinación interinstitucional del Gobierno. Se facilitará el empleo por medio del adiestramiento y colocación de los desempleados y sub-empleados, y aumentará la demanda de mano de obra a través de la canalización de crédito hacia empresas pequeñas que crearán nuevas fuentes de trabajo. Se mejorarán las condiciones de vida por medio de diversas soluciones de vi -



vienda e infraestructura comunal, de acuerdo con la capacidad económica de los beneficiarios: lotes y servicios, unidades básicas, mejoramiento de viviendas existentes, así como construcción de infraestructura comunal. Se dará apoyo a la elaboración de políticas nacionales en campos como el de la vivienda, empleo y crédito a la pequeña industria por medio de estudios de las políticas existentes y análisis adicionales de la pobreza urbana, así como a través de la planificación de proyectos específicos en estos campos.

Se ha calculado que el costo del Proyecto de Desarrollo Urbano alcanzará un total de US\$ 28.836.000. Para llevar a cabo este Proyecto de gran alcance, me permito solicitar, en mi calidad de Representante Autorizado del Gobierno de Costa Rica, la autorización por parte de la A.I.D. de un Préstamo para Vivienda por un monto de US\$ 11.400.000 a través del Programa de Garantías para Inversión de Viviendas de la A.I.D. (HIG) y un Préstamo de Desarrollo (DL) por un monto de US\$ 5.446,000 para actividades relacionadas con el objetivo de incrementar los ingresos de las familias pobres del Area Metropolitana de San José.

El Préstamo para Vivienda (HIG) será utilizado para financiar un programa de crédito para la construcción y mejoramiento de vivienda e infraestructura. Los fondos del segundo Préstamo (DL) financiarán crédito para pequeñas industrias y empresas laborales, asistencia técnica, adiestramiento, adquisición de vehículos, equipo y materiales, y la realización de estudios. Como muestra de la prioridad que el Gobierno de Costa Rica concede a este Proyecto, acordamos aportar fondos de contrapartida por un monto de US\$ 11.390.000.

Reconociendo la necesidad de coordinar eficientemente el Proyecto, y la conveniencia de establecer un Fondo de Garantía para el crédito-



REPUBLICA DE COSTA RICA  
MINISTRO DE HACIENDA

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to a la pequeña industria, el Gobierno de Costa Rica tomará las medidas necesarias para:

1. Establecer un Comité Coordinador Interinstitucional responsable de la coordinación general, planificación y control de los recursos del Proyecto. Este Comité será auxiliado por una Unidad de Coordinación que será establecida en la Presidencia.
2. Establecer un mecanismo de garantía de crédito que asegure un fondo de reservas adecuado para cubrir cualquier morosidad en el pago de los sub-préstamos a las pequeñas industrias.

Considerando la situación económica de Costa Rica y sus intensos y costosos esfuerzos por lograr el desarrollo de las áreas marginadas, me permito solicitarle que los términos de los Préstamos sean lo más favorables posible.

Sin otro particular a que referirme, me suscribo de usted.

Atentamente,

  
HERNAN SAENZ JIMENEZ  
MINISTRO DE HACIENDA



cc/archivo  
HSJ/zdb.

DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON, D. C. 20523

ANNEX I-D  
Page 1 of 4

ASSISTANT  
ADMINISTRATOR

PROJECT AUTHORIZATION AND REQUEST FOR ALLOTMENT OF FUNDS

Name of Country: Costa Rica  
Name of Project: Urban Employment and  
Community Improvement  
Project Number : 515-0130

Pursuant to Part I, Chapter 1, Section 106 of the Foreign Assistance Act of 1961, as amended, I hereby authorize a Loan to the Government of Costa Rica (the "Borrower") of not to exceed Five Million Five Hundred Thousand United States Dollars (\$5,500,000) ("Authorized Amount") to help in financing certain foreign exchange and local currency costs of goods and services required to carry out the project described in the following paragraph. The entire Authorized Amount will be obligated when the Project Agreement is executed.

The project is designed to increase employment and incomes and to improve the conditions of the urban poor in San Jose, and to institutionalize a coordinated government delivery system capable of replicating urban poverty programs elsewhere in Costa Rica (the "Project").

I hereby authorize the initiation of negotiation and execution of the Project Agreement by the officer to whom such authority has been delegated in accordance with A.I.D. regulations and Delegations of Authority, subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

I. Interest Rate and Terms of Repayment

The Borrower shall repay the Loan to A.I.D. in United States Dollars within twenty (20) years from the date of first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay to A.I.D. in United States Dollars interest from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon.



## II. Source and Origin of Goods and Services

Except for ocean shipping, goods and services financed by A.I.D. under the Project shall have their source and origin in countries which are members of the Central American Common Market or in countries included in A.I.D. Geographic Code 941, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall be procured in countries which are members of the Central American Common Market or in the United States.

## III. Conditions Precedent to Initial Disbursement

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement, the Borrower shall furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) Evidence that an Interagency Coordinating Committee, composed of representatives of the Ministry of the Presidency, the National Planning Office and the Ministry of Finance, as well as the participating implementing agencies, has been formally established; and that a Project Coordination and Administration Unit has been created and staffed;
- (b) An implementation plan and estimated budgets for all Loan-financed activities; and
- (c) Copies of signed interagency agreements which define proposed work plans and operating procedures of participating Ministries and implementing agencies.

## IV. Conditions Precedent to Disbursement for Small Industry Component

Prior to any disbursement, or the issuance of any commitment documents under the Project Agreement for financing credit for small industries the Borrower shall, except as otherwise agreed in writing by A.I.D., furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) A copy of its small industry sub-lending regulations, including sub-project and sub-borrower

eligibility criteria, and an implementation plan for training small industrialists;

- (b) Evidence that the Ministry of Economy's Small Industry and Artisan Department has hired and trained sufficient field staff to respond to the projected technical assistance requirements of small industrialists; and
- (c) Evidence that the Borrower has established a Productive Credit Guaranty Project or similar credit guaranty fund mechanism acceptable to A.I.D., which contains adequate contingent reserves to cover potential losses on sub-loans made under the Project.

V. Condition Precedent to Sub-Lending for Worker-Owned and Operated Firms

Prior to any disbursement or the issuance of any commitment documents under the Project Agreement, for financing credit for Worker-Owned and Operated Firms, the Borrower will furnish, in form and substance satisfactory to A.I.D., evidence that adequate managerial talent has been obtained and that each project to be financed is financially, technically, and economically feasible.

VI. Covenants

The Borrower shall covenant:

- (a) to maintain the level of the Small Industry credit portfolio at no less than \$11,400,000 during a period of at least five years after the end of the Project;
- (b) to provide no less than \$3.3 million of its counterpart contribution to the Project for sub-lending to small industries;
- (c) to utilize repayments of principal from A.I.D. funded sub-loans only for those purposes for which A.I.D. Loan funds are authorized; and
- (d) to carry out, with Loan funds, prior to the end of the second year after the first disbursement under

the Loan, an interest rate study to analyze the long-range political, social, and economic consequences of lending to small businesses at subsidized rates.

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Assistant Administrator  
Bureau for Latin America and the  
Caribbean

---

Date

GUARANTY AUTHORIZATION

Provided from: Housing Guaranty Authority

Borrower: Costa Rica

Pursuant to the authority vested in the Assistant Administrator, Bureau for Latin America, by the Foreign Assistant Act of 1961, as amended (FAA), and the delegations of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 222 of the FAA of not to exceed eleven million four hundred thousand dollars (\$11,400,000) in face amount, assuring against losses of not to exceed one hundred percentum (100%) of loan investment and interest with respect to loans by eligible U.S. investors acceptable to A.I.D. made to finance housing projects in Costa Rica.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan, including a grace period on the repayment of principal not to exceed ten (10) years. The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.
3. Government of Costa Rica Guaranty: The Government of Costa Rica shall provide for a full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one percentum ( $\frac{1}{2}\%$ ) per annum of the outstanding guaranteed amount of the loan plus the fixed amount of \$114,000 to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

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Assistant Administrator  
Latin America and Caribbean Bureau

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Date

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ANNEX II-A

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LOGICAL FRAMEWORK

Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p><u>GOAL</u> Increase income and improve quality of life of San Jose's urban poor.</p>	<p>64% increase over current income levels in the earnings of 8,000 families receiving assistance in finding employment.</p> <p>Approximately 13,000 families benefitted by housing and community infrastructure.</p>	<p>Project evaluation; special tabulation and comparison of baseline data with 1973 census data.</p> <p>Implementing agency records</p>	<p>General state of the economy remains healthy.</p>

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ANNEX II-A  
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Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>PURPOSE: Institutionalize a coordinated Government-supported system for reducing the incidence as well as the effects of urban poverty.</p>	<ol style="list-style-type: none"><li>1. Outreach program established capable of identifying 5,000 families, 400 businesses, 3000 workers for training and placement in new jobs, and of producing low income housing solutions at a rate of approximately 2000 per year.</li><li>2. Referral systems in operation for families needing assistance in finding housing and social services, and workers seeking employment.</li><li>3. Service delivery system established capable of training and placing approximately 3000 workers per year and producing low income housing solutions at a rate of 2000 per year.</li><li>4. Feasibility of GOCR system for developing WOOFs determined.</li><li>5. Small industry credit portfolio of national banking system level of at least \$11.4 million by end of project.</li></ol>	<p>Project evaluations; implementing agency records.</p> <p>Results of management consultant team study of WOOF operations.</p>	<ol style="list-style-type: none"><li>1. Quality of services does not deteriorate.</li><li>2. Market for export products remains strong.</li><li>3. Suitable contractor found for providing T.A. to WOOFs.</li></ol>

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Narrative Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<u>OUTPUTS:</u>			
1. Employment	1.a. 8000 workers placed in jobs b. 3000 workers trained prior to placement c. 3000 workers trained on the job d. 970 small industries receiving credit and technical assistance e. \$5.8 million in loans to small industries f. 3500 jobs created in small industries g. 800 owners/managers of small industries trained in business skills h. 3 worker-owned firms initiated i. 120 workers owning/operating firms j. \$1.0 million in loans to WOOFs	Project reports Borrower reports Disbursement records National Banking System records Evaluation reports	New production possibilities and markets exist for small industries. Banking System reforms, including Guarantee Fund, adopted by SBN, successful in increasing effective demand for small business loans.
2. Housing	2.a. Valorization Office and Site Legalization Process established. b. 1000 sites and services with sanitary core units. c. 1000 sites and services with shell houses d. 3000 home improvement loans. e. 500 sites legalized f. \$6.0 million community infrastructure built	Municipal records	Urban poor willing and able to participate in varied aspects of programs--e.g., willing to borrow money for housing and use Employment Service. Rate of inflation stays within range projected in PP.
3. GOCR system for planning, coordination and evaluating service delivery.	3.a. Program planning, coordinating and monitoring system established. b. Project evaluation system designed. c. Special evaluation studies completed. d. Policy studies completed for housing, employment, small industry credit. e. Plans for expansion of project to secondary cities completed.	Annual implementation plans	



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Narrative Summary	Objectively Verifiable Indicators				Means of Verification	Important Assumptions
	AID/DL	AID/HIG	GOOCR	TOTAL		
<u>INPUTS (\$ Million)</u>						
- Technical Assistance	1,703	-	-	1,703	- Loan Agreement	Authorization of local funds
- Equipment/Materials	506.5	-	-	506.5	- Disbursement records	
- Vehicles	157	-	-	157	- Borrowers reports	Land for housing construction can be procured within price convenient for program.
- Training	67.5	-	-	67.5	- RHUDO project monitoring	
- Surveys	30	-	60	90		
- Credit	3,000	11,400	7,480	21,880		
- Office Expansion/ Construction	16	-	-	16		
- Operating/Personnel	-	-	3,700	3,700		
- Subsidies	-	-	150	150		
- Publications	20	-	-	20		
	5,500	11,400	11,390	28,290		

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Department of State

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ANNEX II-B  
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TELEGRAM

AMERICAN EMBASSY SAN JOSE

ACTION: ENGR (HIG)

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INFO:

CHARGE

~~AKO~~

CHRON

RF

6

**LOAN**

Classification

*Copies sent to:*

- 1) Butler ✓
- 2) Bayaguis ✓
- 3) Plasky ✓
- 4) Showronski ✓

6/22/77

**INSP**

R 201943Z JUN 77  
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 TO AMEMBASSY SAN JOSE 1062  
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 UNCLAS STATE 142801

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1977 JUN 21 11 3 10

TAGS:

SUBJECT: URBAN ENVIRONMENT PROJECT (LOAN/HIG)

1. PER PREVIOUS DISCUSSIONS WITH MISSION, THE FOLLOWING PROVIDES SUPPLEMENTAL GUIDANCE ON THE DEVELOPMENT OF THE SUBJECT PROJECT. AS MISSION IS AWARE, INTENSIVE REVIEW OF PROJECT WAS APPROVED THOUGH THE EMPLOYMENT GENERATION COMPONENT OF THE PROJECT WILL REQUIRE AN INTERIM REPORT. THE LEVEL OF DEVELOPMENT LOAN FUNDING WAS REDUCED FROM DOLS. 6.5 MILLION TO DOLS. 3.5 MILLION, WITH A LIMIT OF APPROXIMATELY DOLS. 2.0 MILLION FOR THE INDUSTRIAL LOAN FUND. THE HIG COMPONENT WAS APPROVED FOR DOLS. 9.3 MILLION. SPECIFIC GUIDANCE FOR INTENSIVE REVIEW FOLLOWS:

2. INTERIM REPORT. THE ECONOMIC FEASIBILITY OF THE EMPLOYMENT GENERATION COMPONENT OF THE PROJECT AND THE GOCR'S INSTITUTIONAL CAPACITY TO CARRY OUT THE PROJECT WERE BOTH QUESTIONED. THE FOLLOWING POINTS SHOULD BE ANALYZED AND THE MISSION'S FINDINGS INCLUDED IN THE INTERIM REPORT.

-----A. COST EFFECTIVENESS. THE NATURE AND DEGREE OF THE UNDEREMPLOYMENT AND/OR UNEMPLOYMENT IN THE "TUGURIOS" SHOULD BE IDENTIFIED, AND ALTERNATIVE STRATEGIES FOR RESOLVING EMPLOYMENT CONSTRAINTS SHOULD BE EXAMINED. SPECIFICALLY, THE MISSION SHOULD ANALYZE WHETHER A CAPITAL TRANS-

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FER WOULD BE THE MOST EFFECTIVE MEANS TO MARGINALLY RAISE INCOMES ABOVE THE POVERTY LINE OR IF A TRAINING PROGRAM AIMED AT THE TARGET GROUP WOULD HAVE A SIMILAR IMPACT ON UNEMPLOYMENT AT LESS COST.

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-----B. PROJECT STRATEGY. THE MISSION SHOULD EXAMINE THE PROJECTED DISTRIBUTION OF CREDIT BETWEEN MANUFACTURERS FOR EXPORT AND DOMESTIC MARKETS AND ANALYZE THE IMPACT OF THIS DISTRIBUTION ON EMPLOYMENT, INCOME, FOREIGN EXCHANGE EARNINGS, ETC.

-----C. EXPORT VIABILITY. IF EXPORTS WILL PLAY A MAJOR ROLE IN THIS PROJECT, THE INTERIM REPORT SHOULD PRESENT EVIDENCE THAT EXPORT MARKETS EXIST IN WHICH COSTA RICA HAS A COMPARATIVE ADVANTAGE, AND EXPLORE POSSIBLE INCENTIVES WHICH WILL ENCOURAGE ENTREPRENEURS TO TAKE ADVANTAGE OF THESE PROFITABLE MARKETS. THE MISSION SHOULD ILLUSTRATE THREE SPECIFIC EXPORT EXAMPLES IN THE INTERIM REPORTS; E.G., CARRY OUT THE STEPS OF MARKET IDENTIFICATION, PRODUCTION, CONTRACTING, ETC., FOR THREE SPECIFIC PRODUCTS, DEMONSTRATE HOW AN ENTREPRENEUR COULD CAPITALIZE ON THESE NEW MARKETS, AND PROJECT HOW THIS ADDED CAPITAL INVESTMENT WOULD CREATE JOBS FOR THE TARGET GROUP.

-----D. ALTERNATIVE SOURCES OF CREDIT. THE DAEC QUESTIONED THE NEED OF AID FINANCING A LARGE INDUSTRIAL CREDIT FUND, AS THERE ARE CURRENTLY DOMESTIC SOURCES FOR INDUSTRIAL CREDIT, AND REDUCED THE AMOUNT OF THE FUND TO DOLS. 2.0 MILLION. THE MISSION STILL SHOULD JUSTIFY THE NEED FOR THIS REDUCED FUNDING.

-----E. INSTITUTIONAL ANALYSIS. THE INTERIM REPORT SHOULD CONTAIN A TECHNICAL ANALYSIS OF THE ORGANIZATIONS THAT WILL BE PARTICIPATING IN THIS PROJECT. THE ANALYSIS SHOULD ADDRESS THE PERFORMANCE TO DATE OF THESE INSTITUTIONS, WHAT NEW RESPONSIBILITIES THIS PROJECT WILL ADD TO THEIR WORK LOAD, AND THE INSTITUTIONAL CAPACITY OF THESE AGENCIES TO CARRY OUT THIS PROJECT.

3. URBAN PLANNING. THIS PROJECT MAY PROVIDE THE MISSION WITH AN OPPORTUNITY TO INFLUENCE SHORT AND LONG RANGE URBAN PLANNING FOR METROPOLITAN SAN JOSE. THE INTENSIVE REVIEW SHOULD PAY PARTICULAR ATTENTION TO AID'S ROLE IN THE FORMULATION OF PLANS AND POLICIES THAT WILL BE REQUIRED TO CARRY OUT THIS PROJECT, AS WELL AS THOSE PLANS AND POLICIES WHICH CAN LEAD TO SHORT AND LONG RANGE URBAN GROWTH.

4. HOUSING AND COMMUNITY INFRASTRUCTURE. THE DAEC QUESTIONED THE MISSION'S ASSUMPTION THAT A DEMAND EXISTS FOR LOW COST HOUSING SOLUTIONS AND INFRASTRUCTURE IMPROVEMENT. THE PP SHOULD CLEARLY DEMONSTRATE THE DEMAND FOR THESE ACTIVITIES IN THE TARGET AREAS. THE LAND TENURE SITUATION

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IN THE "TUGURIOS" IS ALSO UNCLEAR AND COULD HAVE AN ADVERSE IMPACT ON THE VIABILITY OF THE HOUSING AND INFRASTRUCTURE PROGRAMS. DURING THE INTENSIVE REVIEW, THE MISSION SHOULD ANALYZE THE EXTENT OF LAND OWNERSHIP IN THE "TUGURIOS" AND USE ITS FINDINGS TO POSSIBLY MODIFY THE PROJECT'S SCOPE AND FUNDING LEVELS.

5. COMMUNITY ORGANIZATIONS. THE PP SHOULD EVALUATE THE INSTITUTIONAL CAPACITY OF THE EXISTING NEIGHBORHOOD ORGANIZATIONS IN THE TARGET "TUGURIOS" TO ACT AS BORROWING AGENTS. THE MISSION SHOULD ALSO EXAMINE WHETHER THE T.A. FUNDED UNDER THIS PROJECT OR FROM OTHER SOURCES WILL BE ADEQUATE TO IMPROVE THE ADMINISTRATIVE CAPABILITY OF EXISTING NEIGHBORHOOD GROUPS AND ASSIST IN THE ORGANIZATION OF NEW ONES.

6. PROJECT DEVELOPMENT. TWO-HUNDRED THOUSAND DOLS. IN TECHNICAL SUPPORT FUNDS WILL BE MADE AVAILABLE FOR THE SECTOR ASSESSMENT AND PRE-PROJECT DEVELOPMENT.

7. ENVIRONMENTAL IMPACT. BASED ON A REVIEW OF THE MISSION'S INITIAL ENVIRONMENTAL EXAMINATION, THE ASSISTANT ADMINISTRATOR HAS REACHED A THRESHOLD DECISION INDICATING A NEGATIVE DETERMINATION. VANCE.  
BT

IMA: Número de cursos, participantes y egresados de acciones impartidas en el Área Metropolitana de San José, según especialidad durante 1977 y primer semestre de 1978.

ESPECIALIDAD	PARTICIPANTES					
	1977			1º semestre 1978*		
	# cursos	Participantes	Egresados	# cursos	Participantes	Egresados
<b>T O T A L</b>	<b>303</b>	<b>4.626</b>	<b>3.977</b>	<b>217</b>	<b>3.391</b>	<b>3.194</b>
Administración de oficinas	1	13	13	1	12	9
Afinado de motores	2	23	14			
Albanilería	5	119	67	1	17	16
Análisis financiero	2	33	28	1	18	17
Análisis ocupacional	1	8	8			
Banco básico y cepillo	3	43	39	1	13	13
Bombas diesel	1	8	6			
Cálculo para maestro de obra	2	38	10	1	22	21
Cajeros	1	20	11	1	20	19
Camarera de hotel	9	96	92	1	14	10
Carpintería	1	11	11	1	15	14
Camarera de hotel (form. ins.)	1	1	1			
Cocina	1	12	8			
Contabilidad básica	2	49	39	3	66	64
Contabilidad básica y princ. costos	2	31	31	1	30	29
Control de calidad	1	16	16	3	49	47
Corte y confección	17	283	212	10	214	210
Costura industrial	8	142	90	9	155	148
Decoración escaparates	1	18	11	2	40	37
Ebanistería (trabajador-alumno)	10	126	108	5	52	50
Ebanistería (rehabilitación)	1	11	10	2	26	24
Electricidad del automóvil	1	14	11			
Electricidad	10	111	106	5	60	56
Electric. instalador viviendas	1	10	10	3	41	38
Electricidad automotriz	1	10	10	1	15	13
Electricidad industrial básica	2	13	7			
Electricidad instalac. eléctricas	2	29	24	1	15	14
Estimación costos mov. tierra	1	13	7			
Estudio métodos	1	14	14			
Formación instructores	2	56	47	1	21	17
Form. instruct. pre-vocacional	1	15	14			
Form. instruct. refrigeración	1	8	5			
Formación integral p/supervisión	12	179	149	6	92	90
Gestión gerencial	2	39	39			
Hidráulica industrial	1	18	18			
Instrumentos de medición	1	6	4			
Interpretación planos de construc.	3	56	44	10	129	125
Imp. form. y desarrollo del personal del Sistema Bancario	1	14	14			
Inglés (camarera)	1	15	10			
Inglés (salonero)	1	14	6			
Invest. bibliog. s/pobl. aprendizaje	1	19	19			

ESPECIALIDAD	PARTICIPANTES					
	1977			1º semestre 1979		
	# cursos	Participantes	Egresados	# cursos	Participantes	Egresados
Legislación y administ. aduanal	1	20	20			
Lubricación	3	29	29	3	45	43
Cultivador de maíz	1	14	14			
Mantenimiento maq. pesada	2	28	28			
Marcadotecnia	7	137	113	2	37	35
Mecánica básica p/conductores	5	68	65	3	46	45
Metodología de la enseñanza	1	26	26	1	15	12
Movimiento de tierra y equipo	2	47	40			
Metodología de la invest. científica	24	429	385	6	115	112
Org. del mant. de la empresa	2	25	8			
Organización de bodegas	4	60	43			
Operación planta CP	1	9	9			
Operación y mant. maquinaria pesada	3	44	44			
Oleohidráulica básica	1	18	13			
Principio de administración	1	221	18			
Proceso manufactura	1	6	6			
" " (maq. H)	2	13	13			
" " (soldad.)	2	13	13			
Rep. artefactos electrodomésticos	4	59	43	1	15	14
Relaciones humanas	13	221	221	14	273	267
Reclutaje téc. pedagógico	1	31	31			
Refrigeración y aire acondicionado	6	78	68	3	36	34
Reparación motores diesel	1	14	12			
Recepción I	3	36	32	1	15	10
" nivel básico I (form. inst)	1	1	1			
Redes eléctricas	2	14	14			
" " RM	2	14	14			
Mecánica agrícola	13	157	149	9	129	119
" automotriz	18	212	187	5	60	55
" estructuras metálicas	9	122	110			
" general	17	201	179	7	87	80
Seminario relaciones humanas	1	29	29			
Sastrería	3	43	36	2	30	29
Sep. salud y contaminación ambiental	1	188	188			
Selección de personal	1	20	19			
Sem. tecnología y salud	1	46	46			
Sem. determinación neces. de formación	1	15	15			
Soldadura eléctrica al arco	2	21	20	3	37	35
Soldaduras especiales	1	9	9	3	46	43
Soldadura oxiacetilénica	2	21	21	9	123	111
Salonero	1	21	17	1	10	9
Salonero nivel básico (form. inst.)	1	2	2			
Sem. planific. y desarrollo recursos humanos	1	19	19			
Seminario diagnóstico global	1	17	17			
" educ. sindical- form. prof.	2	34	33			
Servicio bar y restaurante	2	26	20	1	8	8
Supervisor de ventas	2	32	24	1	20	18
Vendedor de mostrador	2	38	35	2	35	33

ESPECIALIDAD	PARTICIPANTES					
	1977			1º semestre 1978*		
	# cursos	Participantes	Egresados	# cursos	Participantes	Egresados
Vendedor directo	2	43	38			
Tapicería I	3	46	30	1	15	14
" II	1	13	10			
Estructuras metálicas				5	61	56
Asist. elect. general				1	13	12
Electrónica general				3	27	25
Motores diesel				1	11	9
Torno básico				2	22	21
Trazado estructuras metálicas				2	26	25
Administrador de bodegas				3	48	46
Administrador de personal				1	17	16
Administrador general				1	30	29
Análisis puestos de trabajo				1	15	13
Dirección de personal				1	15	15
Desarrollo administración básica				1	20	19
Gestión gerencial pequeña empresa				2	47	44
Afilado de sierras				1	17	16
Plomería				2	26	25
Acabado de maderas				3	43	42
Talla madera				2	27	26
Soldadura general				2	20	18
Técnicas selección de personal				1	35	33
Metodología aplicada				1	15	14
Organización de la producción				2	27	15
Organización del mantenimiento				1	16	15
Seminario de sensibilización				1	15	14
Técnicas programas de producción				1	15	14
Conservación de alimentos				6	111	107
Cuidador de ponedoras				2	34	32
Básico para torneros				2	4	3
Encendido de alta energía				2	18	18
Mecánica mantenimiento maq. planas CI				2	30	29
Secretaría recepcionista				1	20	18
Servotransmisión				1	12	10
Técnicas mecanográficas				1	14	12
Técnico manejo de compras				1	20	18
Auxiliar de gasolineras				2	22	21
Mecanografía básica				1	15	14
Mec. p/maq. familiar básico				1	21	21
Guía congreso COTAL				1	65	65
Salonero barman				1	14	9
Dibujo técnico para abanistas				2	30	29
Redacción técnica				1	20	19

\* Cifras estimadas

FUENTE: Estadísticas Internas del INA, 1977-1978

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INSTITUTO NACIONAL DE APRENDIZAJE

## N° DE CURSOS Y PARTICIPANTES PREVISTOS PARA 1978

## SEGUN RAMAS PROFESIONALES

RAMAS PROFESIONALES	N° de cursos	Participantes	%	
			N° de Cursos	Participantes
<u>TOTAL</u>	<u>2.298*</u>	<u>62.696</u>	<u>100.0</u>	<u>100.0</u>
Agropecuario	404	6.682	17.6	10.7
Pesca y navegación	8	120	0.4	0.2
Metal-mecánica	195	2.667	8.2	4.1
Electricidad y electrónica	61	835	2.7	1.3
Madera	49	781	2.1	1.2
Química	3	45	0.1	0.1
Textil	3	45	0.1	0.1
Cuero y Piel	6	90	0.3	0.1
Confeción	41	655	1.8	1.0
Alimentación	6	90	0.3	0.1
Frio Artificial	10	130	0.5	0.2
Dibujo	2	30	0.1	0.1
Construcción y obras-civiles	69	609	3.0	1.0
Artesanía Artística	94	2,327	4.1	3.7
Hotelería y turismo	56	737	2.4	1.2
Transporte terrestre	877	39,504	38.3	63.1
Peluquería	2	24	0.1	0.1
Economía-administrativa	42	690	1.8	1.1
Comercialización	24	440	1.0	0.7
Transmisión de conocimientos	31	465	1.4	0.7
Directores, administrativos y mandos medios	73	1.164	3.2	1.9
Extensión social	230	4.336	10.0	6.9
Otros	12	230	0.5	0.4

\* Incluidos 10 cursos que se iniciaron en 1977 y finalizan en 1978.

FUENTE: Departamento de Planificación, INA



Programa de AdiestramientoBarrios MarginalesAgencia Ejecutora: Instituto Nacional de Aprendizaje (INA)

	Participantes	Duración Curso (horas)	Nº de Cursos
I. Cursos de Habilitación (for beginning workers)			
Albañilería	180	900	12
Auxiliar Mecánica Automotriz	180	560	9
Carpintería	180	900	12
Costura Industrial	660	200	33
Ebanistería Básica	216	350	12
Mantenimiento Máquina de Costura Industrial	80	140	4
Mecanografía Básica	216	120	12
Soldadura General	120	400	6
Tapicería	240	300	12
	(2072)		
II. Cursos de Habilitación (for workers with some experience)			
Hotelería	300	100	15
Mecánica Aut. (varios)	270	80	18
Ebanista	58	220	3
	(628)		
III. Cursos de Rehabilitación	300	200	15
<u>TOTALES:</u>	3,000		163

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INSTITUTIONAL CAPABILITIES OF IMPLEMENTING AGENCIES

A) IMAS

IMAS was established in 1971 with the objective of responding to the problem of acute poverty in Costa Rica by integrating the marginal population as quickly and effectively as possible into the country's socio-economic mainstream.

The activities of IMAS are divided into three general categories:

(i) Social Assistance: The agency provides food, clothing, and financial aid to those requiring immediate assistance. IMAS figures place the number of beneficiaries of these social assistance programs at 45,494, with a total expenditure exceeding \$1 million annually.

(ii) Social Promotion: Social workers in poor areas and tugurios provide family counseling, assist in the rehabilitation of alcoholics, and sponsor a limited number of job preparation seminars.

(iii) Housing: IMAS has maintained a program of new housing and improvement of existing structures in marginal barrios. During the period of January-March 1977, 97 units were completed and 205 were under construction. With funds from Asignaciones Familiares, IMAS is also constructing homes for the elderly in various parts of the country. Under the new GOCR Administration, IMAS housing activities will be discontinued.

Through its five centers in the Metropolitan Area IMAS has nearly completed coverage of the target population. Its representatives maintain direct contact with the poor by visiting them in their homes. IMAS programs are given high priority in Government circles, and the tugurios poor are generally familiar with and tend to seek out IMAS assistance.

The functions being carried out by IMAS, while necessary, are of a social welfare nature; they respond to effects rather than causes of poverty. Its work in the area of incorporating marginal groups into the nation's social and economic mainstream has been limited. While a few occupational seminars have been held, no real

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job preparation has been conducted, and links with the National Employment Service or other employment and training agencies have been weak.

IMAS's major responsibility under the Project will be to serve as an outreach agency to families within the marginal population. Formal links will be established between this agency and the Ministry of Labor's Employment Service for interviewing and placement of workers, as well as with INA for the administration of subsidies to INA trainees.

The Institute has a staff of 55 in the San José Metropolitan Area. To meet these Project responsibilities IMAS will receive loan assistance for the purchase of vehicles, office furniture and equipment, and a staff increase of 15 professionals and related overhead will be financed by GOCR counterpart. With a current annual caseload of about 30,000 contacts in the Metropolitan Area, the identification of less than 3,000 job prospects each year will be a minor task.

B) MOL - Employment Service

The Employment Service of the Ministry of Labor will have responsibility for identification of job opportunities, selection of candidates for vacant positions, and recommending appropriate training. In addition, the Service is charged with the administration and supervision of an on-the-job training program with cooperating private businesses. The Service is felt to be understaffed, but currently functions with efficiency. In 1977 it was able to fill 4,850 of the 5,900 job vacancies which were brought to its attention. The more exacting task of placing specifically chosen unemployed, while simultaneously performing its conventional tasks, will require new resources and the following organizational changes:

- Reclassification and upgrading of existing positions and the creation of new positions for job identification and placement activities.
- The conduct of business establishment surveys to determine actual and projected job vacancies.

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- Establishment of a psychological and aptitudinal testing department for job applicants. This is particularly important given the anticipated high percentage of handicapped and deprived applicants from the target group.
- Establishment of a coordination unit to deal with INA, special training schools for the handicapped, and other training institutions.
- Decisions regarding the allocation of training funds provided under the Project will require the joint actions of the Ministry of Labor and INA.
- Creation of "outreach" job placement units in the 5 metro offices of IMAS and establishing a coordination system with that agency.
- Expansion of its on-the-job training system to handle approximately 1,000 trainees yearly (approximately twice its current volume).

To administer the on-the-job training program for 1000 workers yearly and carry out the placement of up to 3,000 workers each Project year the MOL will receive T.A., training, and commodities under the Loan plus counterpart in new budget from the GOCR for staff increments and operating expenses.

C) INA

INA was created in 1965 as a semi-autonomous agency whose purpose was to provide apprenticeship and other vocational training for the private and public sectors. During the 1965-1974 period INA trained over 39,000 people in manufacturing, electricity, construction, agriculture, transport, and commercial skills. In 1977 19,152 students received training in some 50 different fields in INA's nine educational centers. INA conducts five types of programs:

(i) Apprenticeship Program: A three-year program for students 15-20 years of age with alternating periods of classroom and factory work. Employment upon graduation is assured in the plant where the on-the-job portion of the training has been carried out. The courses are free to the students.

(ii) Minimal Skills: Short courses for unskilled and unemployed youths and adults to prepare them for an occupation in demand in the economy. The training period varies in duration from 1 to 6 months according to the occupation.

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(iii) Skills Upgrading: A series of courses provided to people who are already employed, but who need to raise their skill level to improve performance or obtain a promotion within the same occupational category.

(iv) Rehabilitation: Training for the handicapped.

(v) Social Extension Program: Largely courses for women on household arts such as sewing.

INA also has recently begun training workers of small enterprises in management, accounting, and entrepreneurial skills.

INA's professional and administrative/executive staff level is almost 500 persons. The bulk of INA's income is derived from a 1% payroll tax on industrial and commercial establishments; there are occasional Central Government subsidies.

INA will be responsible for training about 3,000 of the workers participating in the Project as well as training 800 small industrialists in management and accounting practices. The training of almost 1,000 additional workers per year plus conducting 40 management courses for small businessmen will not constitute a significant addition to INA's present workload. Counterpart funds will be needed for financing the operational costs of training, and Loan funds will be used for the purchase of training equipment.

#### D) MEIC

The MEIC's Department of Small Industry and Artisanry (DGATPIA) has been in existence for approximately two years. It provides assistance to small industry as requested on specific technical and administrative problems, and in the preparation of feasibility studies and loan applications. While its role has in the past been passive, responding only to specific requests by small industry, it has recently established liaison with banking institutions and small industry associations attempting to facilitate the flow of credits to this sector. The DGATPIA also processes requests for import tax exemptions, and performs regulatory functions for small industry. During the first 8 months of 1977 the DGATPIA prepared loan applications and feasibility studies for 57 small industries requiring over \$200,000 in credit; made over 350 industry site visits and con-

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sultations; prepared 8 feasibility studies for new product lines; and published 4 manuals for small entrepreneurs on accounting, export-import regulations, and management.

For this Project DGATPIA has prepared a detailed 3-year program design and budget which will result in considerable staff and budget increments for more intensive promotion, technical assistance, and follow-up for small industries. Through formal agreements with the Banking System it will assist approximately 970 small producers in applying for credit and implementing sub-loans over a three-year period. Formal linkages will also be established with such support institutions as the Employment Service, INA (business management training), and the Technological Institute (for more sophisticated T.A. requirements of industry).

To move from a caseload level of nearly 100 projects per year to 970 in three years, plus other consultations and publications, will require a substantial buildup of personnel and equipment, and specialized T.A. in small business promotion. GOCR counterpart will finance staff increments and related costs while the Loan will finance T.A., training, and commodities.

E. SBN

The National Banking System of Costa Rica includes a number of public and private institutions. The public financial sector includes the Central Bank, four state commercial banks, the National Insurance Institute, a state DFC (CODESA), the national savings and loan system (DECAP), a Community Development Bank (BPDC), the Housing and Urban Institute (INVU), and an institution specializing in financing cooperatives (INFOCOOP). Public financial institutions accounted for 94% of all outstanding loans by commercial banks and financieras as of December 31, 1976. 1/ Only public banks may accept deposits and have branch offices. Private financial institutions include two foreign-owned and three local private commercial banks, one private DFC (CODESA), and 33 private finance companies (financieras). Private banks are restricted in their sources of funds to their head

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1/ Source: Auditoría General de Bancos and Banco Central.

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offices and credits from abroad. Private financieras may issue local currency bonds (Títulos valores), but this device has been rarely used.

The Central Bank. The Central Bank in Costa Rica has the normal central bank functions of currency issuance and the setting of monetary policy. Additionally it has the authority to control operations of financieras, and to establish import controls, both qualitative and quantitative. It influences the sectoral allocations of credit by setting ceilings, differential interest rates, and rediscount rates. It also obtains credit lines from foreign financial institutions for relending through the state-owned commercial banks. The Central Bank finances many public institutions with subsidized credit lines. This financing is considered to be part of its social function. The public sector loan portfolio of the Central Bank is so large that it feels constrained in increasing its rediscount operations, even with respect to priority programs such as assistance to the small industry and artisan sector.

The Public Commercial Banks. The four nationalized banks are organized and managed as autonomous state entities with Boards of Directors approved by the government for 8-year terms. Banks are conservatively managed, non-competitive, risk minimizing institutions. Some specialization does exist. The Bank of Costa Rica, with 30 branches, has concentrated on industrial lending. The Banco Nacional de Costa Rica, the largest with 108 branches, specializes in agricultural credit. The Banco Anglo Costarricense, with 29 branches, is known as the commercial bank. The Banco Crédito Agrícola de Cartago, with 7 branches is the smallest. These are the banks expected to lend to small businesses and artisans.

Public "Financieras". Since 1971 the public commercial banks have been authorized to establish financieras to compete with the private financieras. They are empowered to pay higher rates on deposits than private financieras, and their interest payments are tax exempt.

Private Commercial Banks. These act primarily as middlemen in obtaining short-term Euro-dollar and other credit lines for a fixed commission, and handle export-import transactions.

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Private Financieras. Although they have shifted from local currency to foreign currency operations, their overall volume is declining, dropping 23% in 1976 as compared to 1975.

During 1977 the SBN lent \$3.56 million to the target group of this Project, in 1,170 transactions. The \$5.8 million in additional lending proposed under this Project can readily be handled by the four commercial banks given the implementation of the various reforms in credit operations described in Section III of this Project Paper.

F) DINADECO

The National Community Development Office, a dependency of the Ministry of the Interior, has been in operation for eight years. The main function of DINADECO is to promote, train and evaluate community associations. These fall into three categories:

- (i) "Asociaciones Integrales", which are general (multi-purpose) entities;
- (ii) "Asociaciones Específicas", which have a fixed purpose, e.g. paving or lighting a street, and which dissolve when that objective is achieved; and
- (iii) "Comités de Desarrollo Comunal", which are general purpose groupings, but which differ from Asociaciones in that they do not have legal status and cannot directly receive and administer funds from the Central Government budget.

DINADECO has assisted the formation and functioning of approximately 1,400 such organizations (approximately 60 in the San José Metropolitan Area) and trained over 50,000 of their members during the last eight years.

DINADECO has a staff of 279, of which 169 are field level community organizers under the direction of 16 zonal supervisors. National budget allocations to DINADECO have steadily increased, particularly in the 1974 to 1976 period. In addition to National Budget resources, it is now receiving supplementary allocations from the National Family Assistance Program.

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Under the Project, DINADECO will be responsible for community organization in the target area. DINADECO has primarily operated in the countryside, playing a major role in bringing the multifaceted GOOCR economic and social development programs to the rural population. As the GOOCR is now moving to implement corresponding programs for the urban poor, DINADECO is in the process of creating and staffing its Metropolitan Area Zone division (ZAM). This now consists of 8 Promotors (total staff: 15).

The loan will finance technical, training, and commodity assistance for DINADECO. GOOCR counterpart will be used primarily for staff expansion in the Metropolitan Area.

G) INVU

The National Housing and Urban Development Institute has constructed 20,000 houses and provided supervised credit for an additional 12,600 shelter solutions during the 1955-1977 period. INVU's housing production in 1975, 76, and 77 has been as follows: 1,330, 3,890, 3,300 units. These figures include construction and sale of housing units, credits for individual unit construction, and the financing and sale of developed urban lots. INVU has initiated a \$15 million low-cost housing project with CABEI. With 3/4 of the financing for rural housing, the program is about 1/3 completed and disbursements are ahead of schedule.

INVU's responsibilities under this Project will be incorporated into the existing INVU structure as long term continuing activities, rather than as a separate program administered by a special unit. The production of approximately 1,700 units per year required for this Project is well within the capability of INVU.

The legalization of land tenure activities falls within the purview of the present legal staff of INVU, and does not imply additional staff or the performance of functions beyond its present capability.

The home improvement loan program will require additional staffing for the technical review of individual loans. The technical review and inspection of the home improvements under construction and of completed improvements will be performed initially by a three man staff, which depending on work flows may reach four. The 3 person level could process up to about 30 loans a week, or about 1,500 loans a year; the 4 person level could process up to about 40 loans

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per week or 2,500 loans a year. The rate of sub-loan approvals will probably peak in the end of the second year or the beginning of the third year, reflecting the lead time for promotion and information in the target areas.

The credit evaluation part of the home improvement program will be the responsibility of the existing credit department which also includes social workers. The staff of this department will take on the additional work; some additional staff for this may be needed. Sub-loan collections will also be the responsibility of the existing collections department.

DINADECO and INVU will rely on previous experience in organizing and assisting the urban poor in the self-help construction of shelter in implementing the 2,000 site and services solutions planned for the Project. The experience of the two agencies dates back to two projects begun in September, 1976. Site acquisition, physical design, cost estimating, and contracting for the sites and services will be handled by INVU. The client identification, community and family organization, and supervision of the self-help construction will be handled by DINADECO. INVU will administer the mortgages and notes generated by this program through its portfolio management operation.

H.G. credit supplemented by GOCR counterpart will be utilized to finance INVU construction and related administration costs for the Program. Development Loan funds will finance technical assistance to INVU in developing its home improvement loan program.

H) IFAM

The Institute for Municipal Development was created in 1970 as a semi-autonomous agency responsible for extending loans to Municipalities and providing them with related technical assistance. From 1971 to 1976 IFAM trained over 2,500 municipal officials, and provided the municipalities with credit totalling approximately \$12,000,000 (16% of which is for the San José Metropolitan Area).

IFAM has a variety of income sources, primarily allotments from land and sales taxes. It has also received technical and capital assistance from AID (Loans 023, 025) for its rural programs. IFAM's balance sheet reflects a pattern of constant growth. Total assets grew from \$4.6 million in 1974 to \$9.9 million in 1976. Current assets

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also more than doubled during that period. Loans made increased from \$1.7 million in 1974, to \$5.0 million projected in 1977. These figures tend to demonstrate that IFAM will have no difficulty in fulfilling its responsibility for channeling loans to the municipalities for use in community upgrading projects. The average of \$2.0 million per year in subloans to the municipalities under this Project is well below IFAM's current rate of lending.

IFAM will provide expertise in determining the economic feasibility of community upgrading projects and in the design of specific improvements, where such improvements are not the responsibility of other agencies. It may have to contract for specific professional services on a project-by-project basis for assistance in design and in estimating costs of construction; but this will not represent a problem, as IFAM has performed this technical role previously in the development of municipal projects.

The agency also will be called upon to assist in implementing the cost recovery mechanism for the community upgrading projects. This will involve assisting the municipalities in strengthening their collection systems. In those cases where IFAM's review of a specific sub-loan demonstrates that a municipality has a particularly weak collection record, IFAM will subcontract to perform collections on its behalf.

A study prepared for the Mission in August, 1977, by Morcillo and Associates of Colombia (where valorization is widely used), concluded that existing legislation in Costa Rica is adequate to permit financing community improvements on a cost assessment basis. Currently more than 30 projects in Metropolitan San Jose are being financed through valorization, although there is practically no use of the system with respect to improvements in the tugurios. Applying the system to these areas will be innovative, although the concept of using valorization to finance community improvements in Costa Rica is not new.

IFAM will set up a three-man unit within its Technical Assistance Division pursuant to a recommendation in the Morcillo study that the agency assist municipalities in administering the valorization system.

A major task will be the development and implementation of a new formula for assessing costs to the beneficiaries. The Morcillo

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study found that the cost of improvements is assessed almost exclusively on the basis of the frontage of properties. This method, while considered acceptable for street paving or sidewalk construction, does not provide an equitable assessment of costs for improvements which benefit an entire community, such as the construction of access roads or community facilities, or where the level of benefit varies. A new formula can be developed based on documented experience in countries such as Colombia on which, for example, the World Bank has done a study. The procedure will also have to be modified so that the level of assessment is established and made known to the various beneficiaries before construction starts, with collections initiated concurrently with construction work.

IFAM's task then, will be twofold. It will be promoting the extension of the existing valorization system in Costa Rica to the tugurios, while at the same time redefining the procedures associated with the system to provide for greater equity. With regard to the first task, IFAM's solid experience in dealing with the municipalities will be a strong asset. In dealing with the communities in explaining the system, IFAM will have the support of DINADECO. Development Loan funds will finance short-term technical assistance and personnel training to IFAM in support of this task, primarily to assure that IFAM has access to outside expertise in the field. HG and counterpart funds will be utilized to finance construction and related Project administration costs.

(i) Metro Area Municipalities

The ten Metro Area municipal governments will be borrowers for community infrastructure credits in this Project. IFAM has made financial and administrative studies of these governments to determine their capacity to administer and repay loans. In terms of the general financial condition of Metro Area Municipalities, all ten had current incomes exceeding current expenditures in 1976, and nine had positive balances after debt service. Although the financial conditions of the municipalities vary, in general they are able to recover investments and operate around break-even. IFAM's analysis of each infrastructure credit proposal will include an examination of the prospects of repayment, including an evaluation of the municipality's credit-worthiness as borrower.

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Through neighborhood assessments the municipalities are collecting funds invested in infrastructure. Their collection record has been mixed, but the IFAM studies conclude that the valorization recovery system is feasible. Currently more than 30 infrastructure projects are being paid off through valorization. Examples: (a) the Municipality of Goicoechea has carried out projects for more than \$33,000 in the last five years, and has recuperated to date through assessments over \$23,000. The remaining funds are not yet due; (b) the Municipality of Tibás reported investments of \$82,000, of which \$59,000 has been recovered to date. Seven of the ten municipalities are presently making collections through valorization.

SHELTER AND COMMUNITY INFRASTRUCTURE

TECHNICAL ANNEX

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GENERAL DATA\* - 9 TARGET NEIGHBORHOODS STUDIED  
1973

	<u>Neighborhood Number</u>									
	<u>33</u>	<u>85</u>	<u>59</u>	<u>75</u>	<u>15</u>	<u>3</u>	<u>2</u>	<u>18</u>	<u>13</u>	<u>TOTAL</u>
Population	1,430	12,617	7,744	234	6,555	1,741	8,209	791	4,007	43,328
No. Families	245	2,520	1,451	41	1,285	319	1,430	119	786	8,196
Avg. Family	5.84	5.00	5.33	5.70	5.10	5.46	5.74	6.65	5.10	5.29
<u>Housing Condition</u>										
Good	21%	44%	53%	36%	61%	38%	22%	17%	57%	44%
Fair	20%	25%	22%	20%	24%	17%	13%	18%	21%	21%
Poor	59%	31%	25%	44%	15%	45%	65%	65%	22%	35%
<u>Tenancy</u>										
Owner	57%	36%	40%	75%	47%	64%	51%	43%	48%	45%
Renter	20%	57%	52%	17%	47%	30%	46%	43%	47%	49%
Other	23%	7%	8%	8%	6%	6%	3%	14%	5%	6%

\* SOURCE: 1973 Census.

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BREAKDOWN OF MONTHLY RENT PAYMENTS IN MARGINAL BARRIOS

<u>PAYMENT RANGE ₡</u>	<u>% RENTERS</u>
Less than ₡100	4.9
100 to 200	23.5
200 to 300	32.1
300 to 400	16.5
400 to 500	13.9
500 Above	9.1

BREAKDOWN OF PREFERRED MONTHLY PAYMENTS FOR PURCHASE OR IMPROVEMENT OF HOUSING

<u>PAYMENT ₡</u>	<u>% FAMILIES INTERESTED</u>
1 to ₡100	11.73
100 to 200	18.52
200 to 300	23.14
300 to 400	16.14
400 to 500	11.96
500 to 600	10.27
600 and Up	8.24

Source: Household and Adult Survey in Marginal Barrios - San José - May 1977  
Office of Information  
Ministry of Presidency

DISTRIBUTION OF HOUSEHOLD EXPENDITURES  
SAN JOSE METROPOLITAN AREA

	INCOME CLASS		
	HIGH Above ₡5000 %	MIDDLE ₡1750 to ₡5000 %	LOW Below ₡1750 %
Clothing	8.7	9.3	7.7
Housing	27.3	24.9	23.1
Food	18.0	34.0	46.1
Health	5.0	3.3	2.3
Education	3.9	3.4	1.4
Transport	11.8	9.2	6.5
Other	25.3	15.9	12.9

Source: Survey of Family Incomes and Expenditures 1974  
Director General of Statistics and Census

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INDICATED MONTHLY PAYMENTS  
FOR A HOUSING SOLUTION

57.6% of the surveyed families indicated the monthly payment they would be willing to pay for a housing solution. The percentage of families indicating monthly payments with each level are listed below.

Monthly Payment Level

<u>¢</u>	<u>\$</u>	<u>%Families</u>
0 - 100	0 - 11.70	9.7
100 - 200	11.71 - 23.41	22.5
200 - 300	23.41 - 35.12	18.8
300 - 400	35.13 - 46.83	15.9
400 - 500	46.84 - 58.54	11.4
500 - 600	58.55 - 70.26	10.2
600 - 700	70.27 - 81.96	3.4
700 and up	81.97 up	8.1

Source: Household and Adult Survey May 1977  
Marginal Barrios - San José  
Office of Information  
Ministry of Presidency

INDICATED PURCHASE PRICE FOR  
A NEW HOME

45.8% of the surveyed families indicated the price they would be willing to pay for a new home. The percentage of families indicating a price within each level are listed below.

<u>Indicated Range for Price of Housing</u>		
<u>¢</u>	<u>\$</u>	<u>%FAMILIES</u>
1000 - 8000	111 - 937	3.2
8000 - 15000	937 - 1757	3.9
15000 - 22000	1757 - 2576	17.7
22000 - 29000	2576 - 3396	7.5
29000 - 36000	3396 - 4215	13.7
36000 - 43000	4215 - 5035	11.2
43000 - 50000	5035 - 5855	2.2
50000 - 57000	5855 - 6674	17.2
57000 and up	6674 and up	23.4
AVERAGE	¢ 44.358	\$ 5194
MEDIAN	38.555	4515
MODE	34.011	3983

Source: Household and Adult Survey - May 1977  
Marginal Barrios - San José

INDICATED COST FOR HOMEREPAIR OR IMPROVEMENTS

18.8% of the surveyed families indicated the cost - they estimated would be required for repair of their homes. The percentage of families indicating costs within each level are listed below:

ESTIMATED AMOUNT FOR REPAIR

<u>¢</u>	<u>\$</u>	<u>%</u>
1000 -- 4000	117 -- 468	26.4
4000 - 7000	468 - 820	10.5
7000 - 10000	820 - 1171	6.9
10000 - 13000	1171 - 1522	13.1
13000 - 16000	1522 - 1874	5.9
16000 - 19000	1874 - 2225	4.7
19000 - 22000	2225 , - 2576	6.0
22000 and above	2576 and above	25.0
AVERAGE:	¢ 16.333	\$ 1913
MEDIAN:	10.000	1171
MODE:	2,000	234

Source: Household and Adult Survey, May 1977  
Marginal Barrios - San José

Estimated Costs for Typical Home Improvements

A. New Bathroom with toilet, shower lavatory and wash sink (see sites & services)	₱ 3400	\$398
B. New septic tank and drain field	₱ 1500	\$175
C. New Roof 50 M <sup>2</sup> at ₱ 50 M <sup>2</sup>	₱ 2500	\$294
TOTAL	₱ 7400	\$866
A. New bedroom 12M <sup>2</sup> at ₱ 500 per M <sup>2</sup>	₱ 6000	\$702
B. New Electrical installation 8 outlets at ₱ 80 per outlet	₱ 640	\$ 75
C. 2 new windows at ₱120 each	₱ 240	\$ 28
TOTAL	₱ 6880	\$805
A. New roofing 60M <sup>2</sup> at ₱ 50 per M <sup>2</sup>	₱ 3000	\$351
B. New concrete floor 50 M <sup>2</sup> at ₱ 50 per M <sup>2</sup>	₱ 2500	\$293
C. New windows 2 at ₱120 each	₱ 240	\$ 28
TOTAL	₱ 5740	\$672

Density of 312 Persons/Hectare

52 lots of 120 m <sup>2</sup> = 6,240 m <sup>2</sup> =	62%
Communal areas, green area, commercial =	19%
Streets and pedestrian ways =	19%
1 hectare = 10,000 m <sup>2</sup> = Total Area =	100%

Density of 564 Persons/Hectare

94 lots of 60 m <sup>2</sup> = 5,640 m <sup>2</sup> =	56%
Communal, green and commercial area =	20%
Streets and pedestrian ways =	24%
1 hectare = 10,000 m <sup>2</sup> = Total Area =	100%

Total Unit Element Costs\*

1 cost of street including paving, curb and cutters, walks, storm drainage, sewer and water =	C1,500 ML
2 cost of pedestrian walk including green area, walks, drainage, water and sewer =	C1,000 ML

Urbanization Costs/Hectare

1.	312 persons/hectare 120 m <sup>2</sup> lot; 46 ML street at C1,500 =	C 69,000
	204 ML pedestrian way at C1,000 =	204,000
	Total/Hectare	C273,000 - \$31,970
2.	564 persons/hectare 60 m <sup>2</sup> lot, 53 ML street at C1,500 =	C 79,500
	264 ML pedestrian way at C1,000 =	264,000
	Total/Hectare	C343,500 - \$40,230

\* INWU current cost analysis of urbanization costs.

Land Cost Range

1 hectare at  $\text{€}40/\text{m}^2 = \text{€}400,000/\text{hectare} = \$46,840/\text{hectare}$   
 1 hectare  $\text{€}60/\text{m}^2 = \text{€}600,000/\text{hectare} = \$70,260/\text{hectare}$

Average Price Per Lot

A.	312 density, $\text{€}40/\text{m}^2$ land price, 52 lots, 120 $\text{m}^2$ lots	
	Urbanization	= $\text{€}273,000$ \$31,970
	Land	= $\text{€}400,000$ 46,840
	52 lot total	= $\text{€}673,000$ \$78,810
	Per lot	= $\text{€}12,942$ \$ 1,515
	Per $\text{m}^2$	= $\text{€}107.85$ \$12.63
B.	564 density, $\text{€}40/\text{m}^2$ land price, 94 lots, 60 $\text{m}^2$ lots	
	Urbanization	= $\text{€}343,000$ \$40,230
	Land	= $\text{€}400,000$ 46,840
	94 lot total	= $\text{€}7,904$ \$ 926
	Per $\text{m}^2$	= $\text{€}131.73$ \$15.43
C.	564 density, $\text{€}60/\text{m}^2$ land price, 94 lots, 60 $\text{m}^2$ lots	
	Urbanization	= $\text{€}343,000$ \$40,230
	Land	= $\text{€}600,000$ \$70,260
	94 lot total	= $\text{€}943,000$ \$110,490
	Per lot	= $\text{€}10,032$ \$1,175
	Per $\text{m}^2$	= $\text{€}167.20$ \$19.59
D.	Assumed typical solution	
	80 lots at $75 \text{ m}^2 = 6,000 \text{ m}^2$	60%
	Commercial, public and green area	20%
	Streets and walkways	= 20%

## Land cost:

1 hectare at  $\text{€}40/\text{m}^2 = \text{€}400,000 = \$46,838$   
 Urbanization:  
 50 ML street at  $\text{€}1,500 = 75,000 = 8,782$   
 250 ML walks at  $\text{€}100 = 250,000 = 29,274$   
 Total for 80 lots =  $\text{€}725,000 = \$84,894$   
 Cost per lot =  $\text{€}9,063 = \$1,061$   
 Cost per  $\text{m}^2 = \text{€}120/\text{m}^2 = \$14.15$

## Typical lot and sanitary core:

Lot:  $\text{€}9,100 = \$1,066$   
 Sanitary core:  $3,400 = 398$   
 Total  $\text{€}12,500 = \$1,464$

# HECTAREA TÍPICA

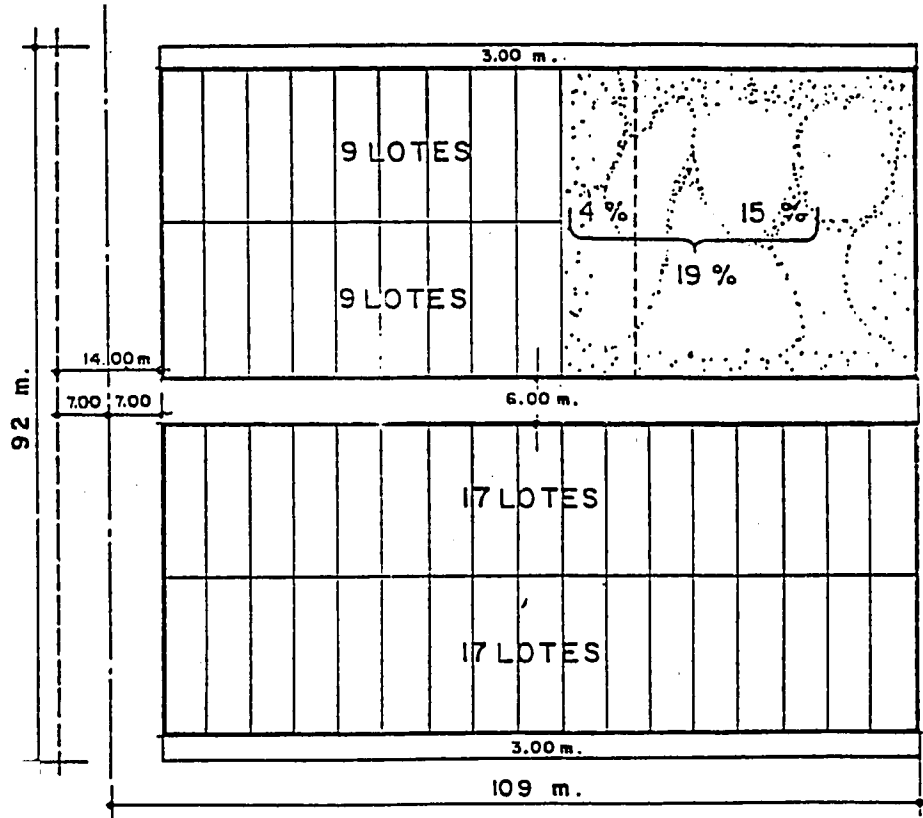
## DENSIDAD DE 312 HABITANTES POR HECTAREA

### AREA VENDIBLE

{ 52 LOTES DE 120 m<sup>2</sup> = 6 240 m<sup>2</sup>.....= 62 %

### AREA PUBLICA

{ AREA VERDE, AREA COMUNAL Y COMERCIO.....= 19 % }  
 { VIALIDAD.....= 19 % } 3  
 TOTAL.....= 100 %.



{ 1/2 CALLE DE 14 m. = 92 / 2 = 46 m.....= 644 m<sup>2</sup>  
 ALAMEDA DE 6 m. = 102 x 2 = 204 m.....= 1224 m<sup>2</sup>

# HECTAREA VIALIDAD

DENSIDAD DE 564 HABITANTES POR HECTAREA

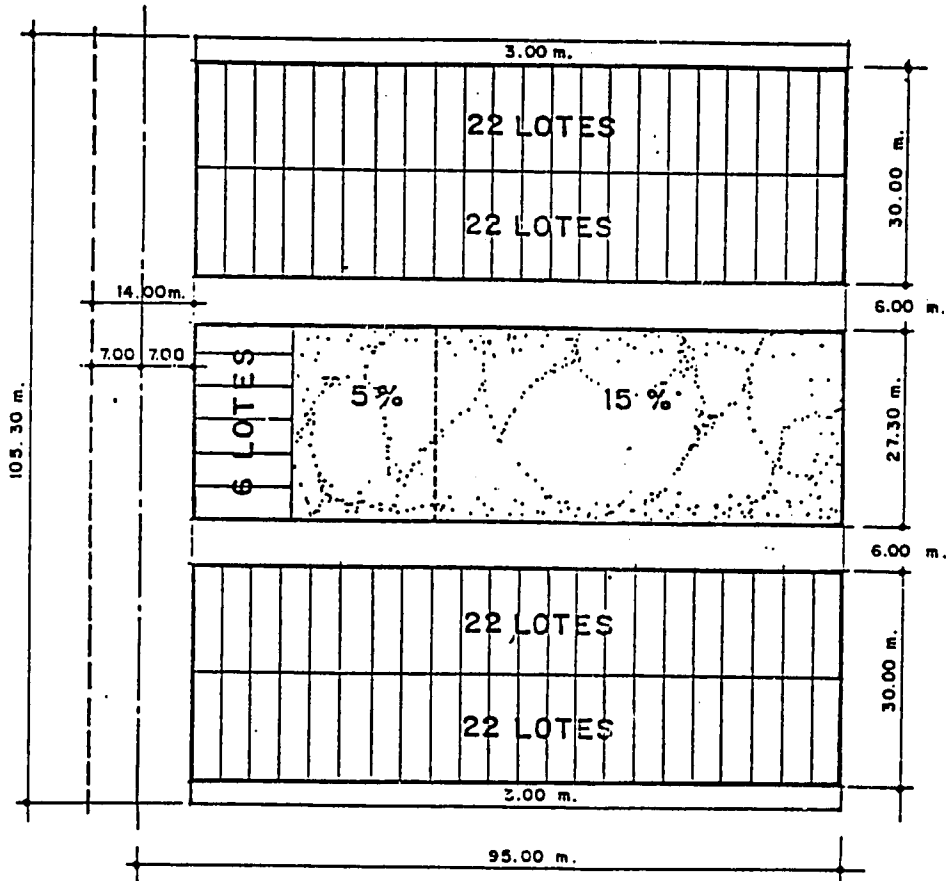
### AREA VENDIBLE

{ 94 LOTES DE 60 m<sup>2</sup> = 5 640 m<sup>2</sup>..... = 56 %

### AREA PUBLICA

{ AREA VERDE, AREA COMUNAL Y COMERCIO = 2 000 m<sup>2</sup>.. = 20 % }  
VIALIDAD..... = 24 % } 44 %

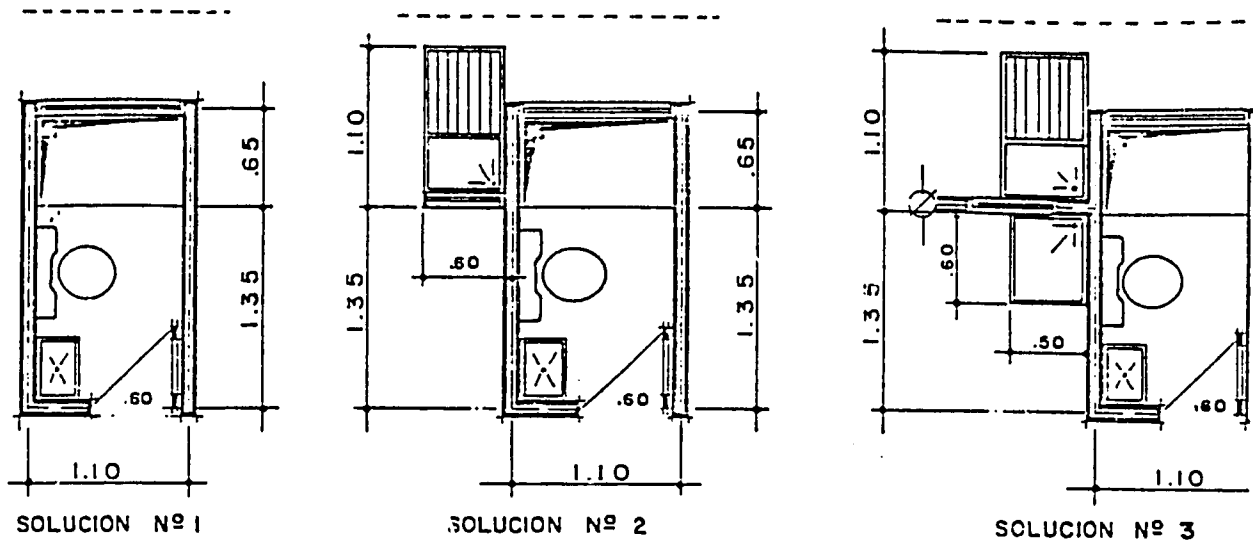
TOTAL..... = 100 %



{ 1/2 CALLE DE 14 m. = 105 / 2 = 52.65 m..... = 737.10 m<sup>2</sup>  
ALAMEDA DE 6 m. = 88 x 3 = 264 m..... = 1584.00 m<sup>2</sup>



## SERVICIOS BASICOS PARA LOTES Y SERVICIOS



Nº 1: SERVICIO CON INODORO, DUCHA, LAVATORIO.

COSTO ₡ 3.200.

Nº 2: SERVICIO CON INODORO, DUCHA, LAVATORIO, PILA ROPA.

" ₡ 3.400.

Nº 3: SERVICIO CON INODORO, DUCHA, LAVATORIO, PILA ROPA, PILA COCINA. COSTO ₡ 3.500.

## COSTOS DE ELEMENTOS PREFABRICADOS.

INODORO ₡ 500

LAVATORIO ₡ 300

PILA ROPA ₡ 200

PILA COCINA ₡ 100

## MATERIALES UTILIZADOS EN SERVICIOS BÁSICOS

CIMENTOS: CONCRETO CICLOPEO.

PAREDES: BLOQUES REFORZADOS CON CONCRETO Y VARILLA.

PISOS: CONCRETO LUJADO.

ESTRUCTURA DEL TECHO: MADERA.

CUBIERTA DEL TECHO: HIERRO GALVANIZADO Nº 28.

VIGAS ASISMICAS Y CORONA: CONCRETO REFORZADO CON VARILLA.

ELEMENTOS PREFABRICADOS: INODORO, LAVATORIO, A PETICION PILA ROPA Y PILA COCINA

## OBRA TERMINADA INCLUYE MATERIALES Y MANO DE OBRA

	CANTIDAD	UNIDAD	PRECIO UNITARIO	TOTAL
CONCRETO CICLOPEO	0.744	m <sup>3</sup>	250	186
VIGA ASISMICA	0.248	m <sup>3</sup>	950	235.60
VIGA CORONA	0.223	m <sup>3</sup>	950	211.85
PARED DE BLOQUE	11.38	m <sup>2</sup>	60	682.80
CERCHA DE MADERA	2.80	m <sup>2</sup>	30	84
CUBIERTA HG. Nº 28	2.80	m <sup>2</sup>	30	84
PUERTA	1	c/u	110	110
VENTANA DE MADERA	0.36	m <sup>2</sup>	85.50	30.75
PISO PLANCHE	2.20	m <sup>2</sup>	50	110
TUBERIA	10	mL	10	100
ACCESORIOS BAÑO	1	c/u	35	35
CEPRAJERIA	1	c/u	30	30
INODORO	1	c/u	500	500
LAVATORIO	1	c/u	300	300
PILA ROPA	1	c/u	200	200
PILA COCINA	1	c/u	100	100
UTILIDAD CONTRATISTA				500
<b>TOTAL</b>				<b>3.500</b>

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ESTIMATE OF HOUSES SUBJECT TO POSSIBLE  
REMOVAL DUE TO PHYSICAL DANGER\*  
IN 7 TARGET NEIGHBORHOODS

<u>Target Area Number</u>	<u>Estimated %</u>	<u>Estimated Number</u>
16	7.35	18
85	15.23	384
59	19.88	288
75	8.77	4
15	9.25	122
3	5.97	19
2	4.98	<u>71</u>
Total 7 Areas		906

\* Flooding, land slides, fire, etc.

SOURCE: INVU survey of target areas, household and adult survey.

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## CONDITION OF SELECTED INFRASTRUCTURE

## IN 9 TARGET NEIGHBORHOODS STUDIED

Element	NEIGHBORHOOD NUMBER								
	33	85	59	75	15	3	2	18	13
<u>Condition of Streets</u>									
Good	42.50	79.77	39.32	11.11	72.22	54.16	- - -	22.50	82.19
Fair	30.00	8.99	39.34	- - -	27.77	25.00	94.44	- - -	6.85
Poor	27.50	11.24	30.34	88.88	- - -	20.84	5.56	20.00	10.96
Number of Observations	33	29	89	9	54	24	41	40	43
<u>Condition of Walks</u>									
Good	10.0	43.25	41.59	- - -	77.77	6.25	- - -	65.0	66.44
Fair	- - -	19.10	23.59	11.72	16.66	- - -	12.96	- - -	1.37
Poor or Non-Existent	90.0	37.65	28.82	88.78	5.57	93.75	87.63	35.0	32.20
Number of Observations	80	178	178	18	54	48	82	80	146
<u>Material of Streets</u>									
Paved (Asphalt or concrete)	30.00	77.90	82.02	- - -	81.48	45.85	5.55	77.50	87.67
Select material (Lastre)	37.50	13.48	12.36	100.00	18.51	25.00	87.03	- - -	9.86
Dirt	32.50	5.62	5.62	- - -	- - -	27.17	7.40	22.50	2.47
<u>Material of Walks</u>									
Concrete	10.00	66.29	67.67	- - -	- - -	6.25	12.96	68.75	72.60
Other Material	- - -	- - -	5.05	- - -	100.00	- - -	- - -	- - -	- - -
Dirt	90.00	1.12	- - -	11.72	- - -	- - -	- - -	5.00	12.33
Non-Existent	- - -	32.54	25.22	88.28	- - -	93.75	87.04	26.25	5.07
<u>Type of Sanitary Service</u>									
Sewer	.41	11.47	7.85	2.44	1.17	6.58	2.00	00.00	24.05
Septic Tank	41.22	60.24	61.27	51.22	85.76	47.65	33.00	35.24	63.23
Latrine	51.02	26.39	29.70	43.90	11.59	43.89	64.00	63.87	11.83
None	7.35	1.90	1.16	2.44	1.48	1.88	1.00	.84	.89
<u>Type of Water Service</u>									
Piped Individual	91.84	98.92	99.45	90.24	98.21	97.80	68.00	100.00	99.24
Piped Collective	- - -	- - -	- - -	4.88	.16	- - -	31.00	- - -	.76
Other	8.16	1.08	0.55	4.88	1.63	2.20	1.00	- - -	- - -

Source: INVU survey of 9 target neighborhoods and 1973 Census Data

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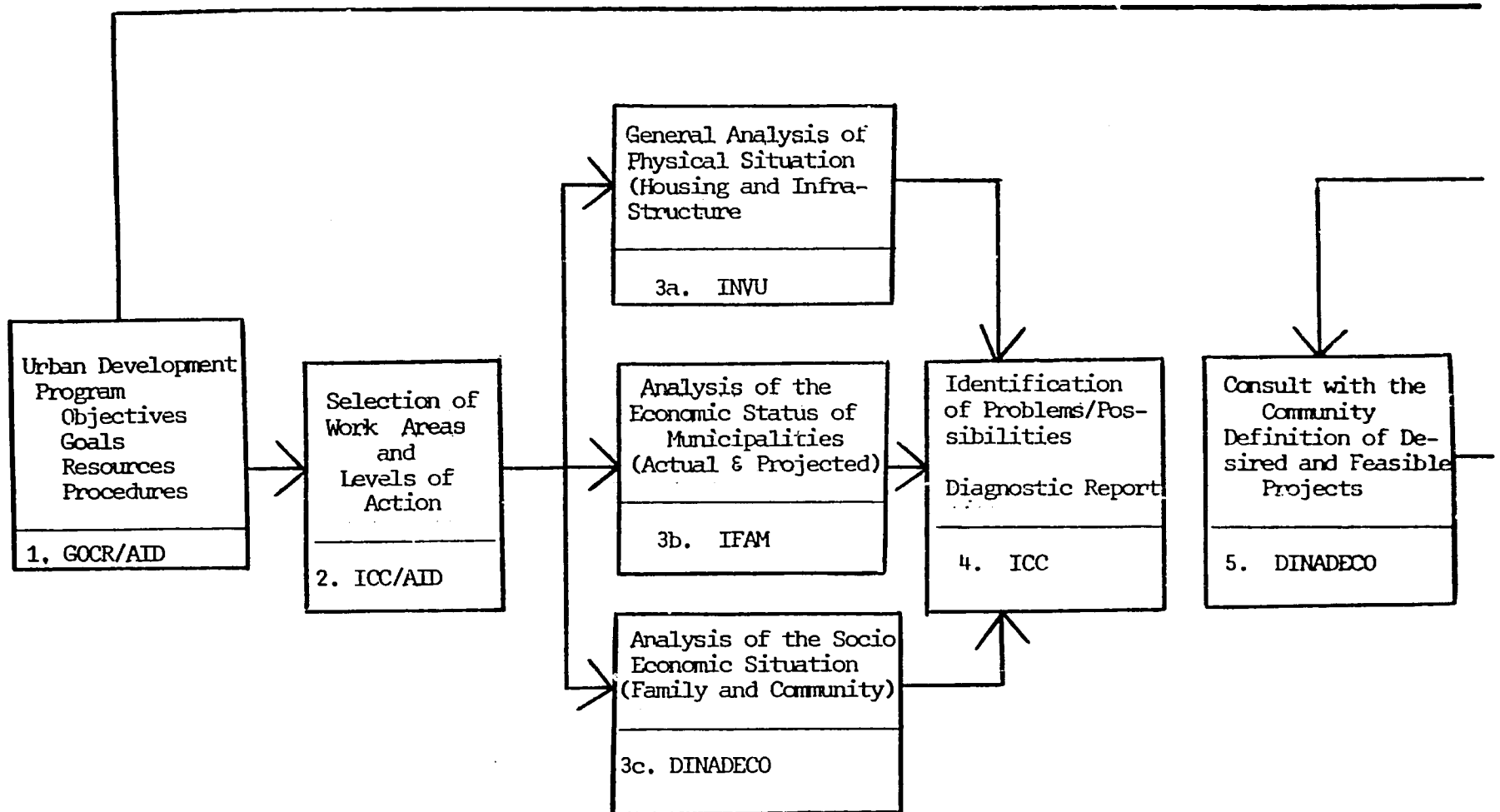
PROGRAM FLOW CHART  
SHELTER AND COMMUNITY UPGRADING COMPONENT

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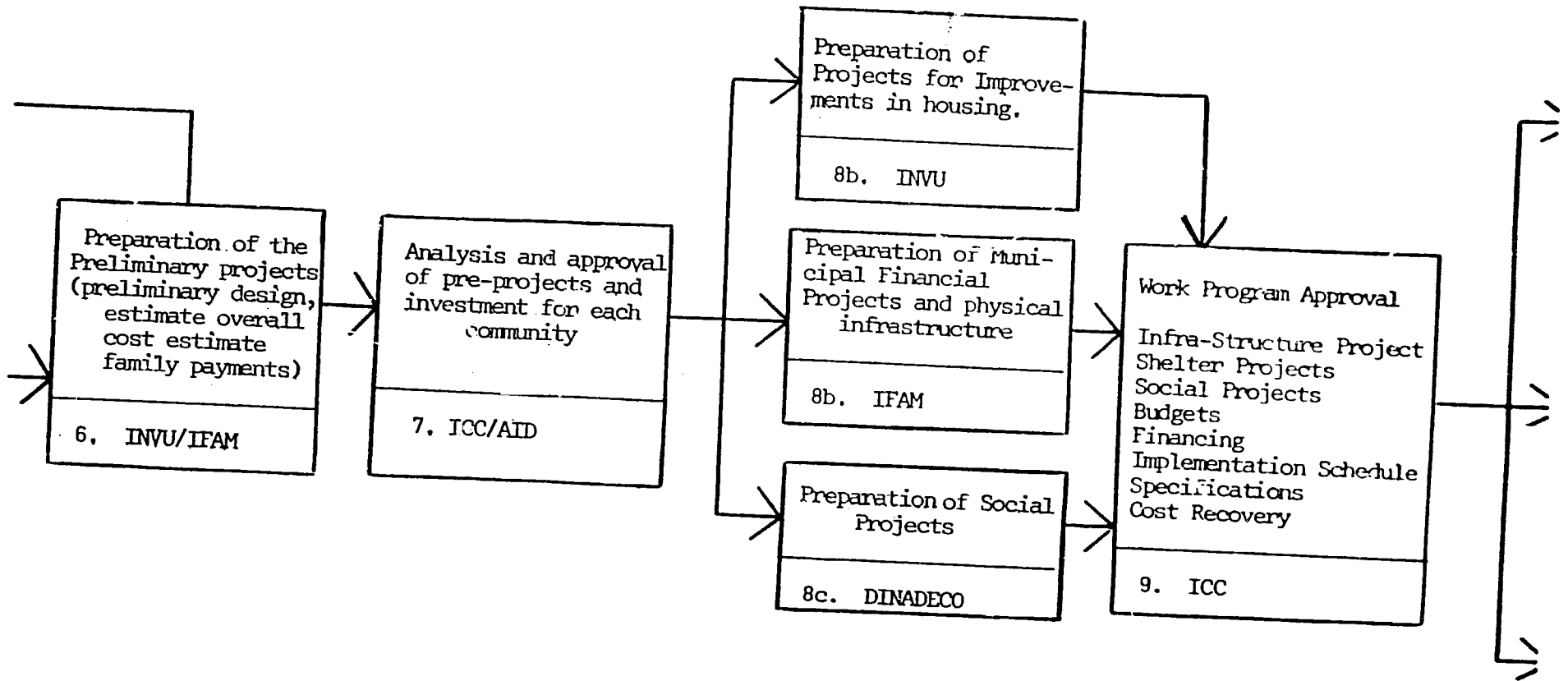
ANNEX II-E/11

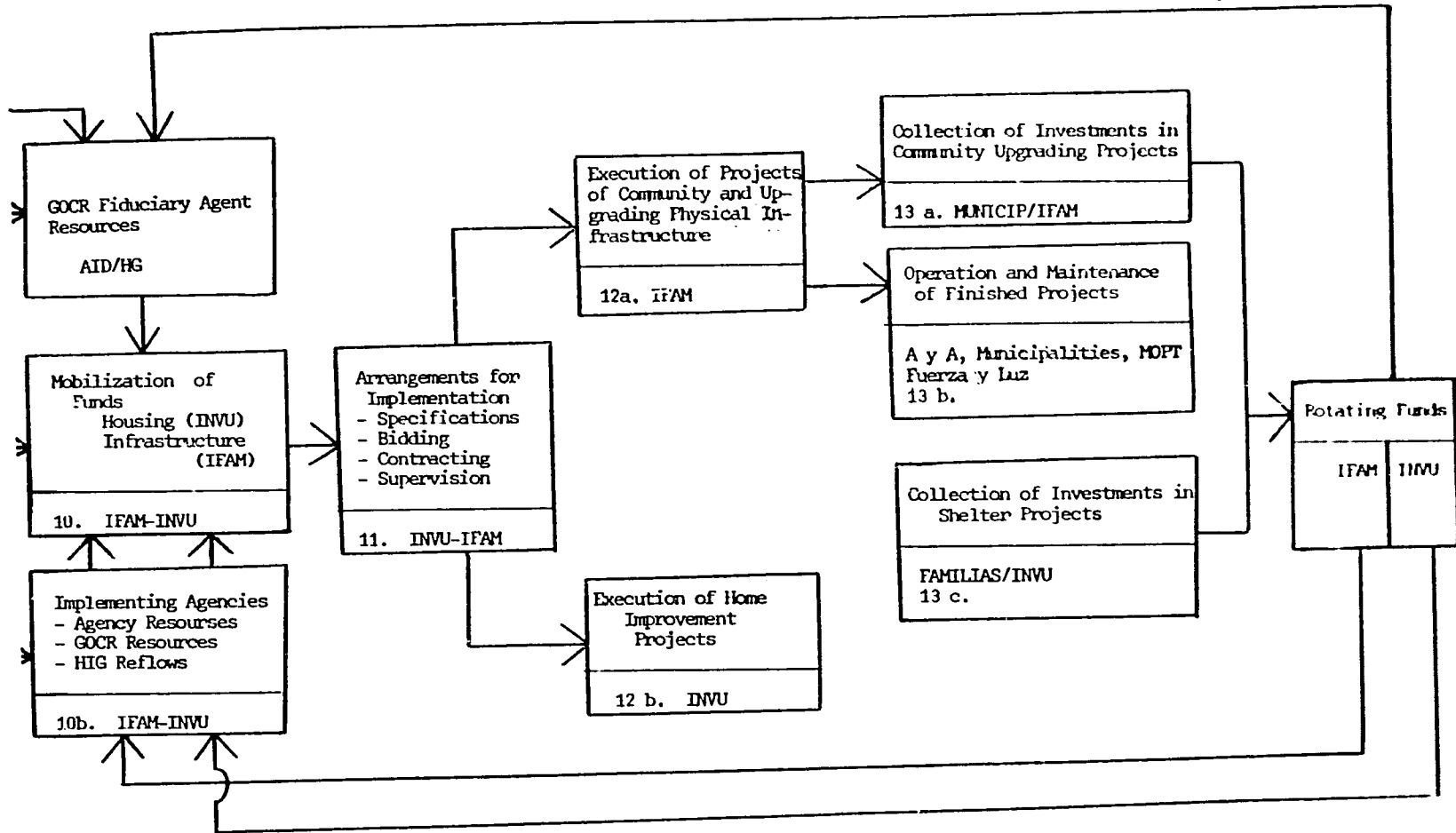
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ANNEX II-F  
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SHELTER AND COMMUNITY INFRASTRUCTURE

FINANCIAL ANNEX

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- II-F/1 INVU - Financial Statement Analysis  
1974-1977
- II-F/2 IFAM - Financial Statement Analysis  
1974-1976
- II-F/3 Cash Flow Projections for Housing and  
Infrastructure Fund
- II-F/4 Project Delivery Plan - Shelter and Community  
Infrastructure Projects

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INVU - FINANCIAL STATEMENT ANALYSIS

The comparative financial statements of INVU for Fiscal Years 1974 through 1977 appear in this Annex. The Condensed Comparative Balance Sheets reflect an Asset growth of 55% during the four year period. The major Asset account associated with this Balance Sheet increase is that of Loans Receivable, which accounted for over 80% of the total increase. The Loan Receivable account, which has increased from \$27.0 million in 1974 to \$45.6 million in 1977, is a result of INVU's increased mortgage operation. In addition, funds generated through bond sales, debt financing and net income have contributed to the asset growth.

Financial indicators shown at the bottom of the Balance Sheet reflect a relatively poor current position resulting from long-term investments in non-current assets. Long-term investments which have accounted for over 29% in 1977 of total assets are made up basically by housing and urbanization projects. This potential lack of liquidity will, most likely, not present a major problem since INVU is the Government Agency dealing with housing, a commodity for which there is a great demand in Costa Rica. The second ratio on the Balance Sheet (Debt to Equity) represents an adequate ratio of debt financing to equity financing for developmental purposes.

The Condensed Comparative Income Statements in this Annex show a 149% increase in income from 1974 to 1977. This growth is a result of increases in income generated through land sales, increase in selling price through the application of financial and administrative costs to completed projects and increases in interest income. In 1976 the historical growth of net income was reversed, falling from \$1.7 million in 1975 to \$900 in 1976. The 1976 drop in net income was primarily due to late completion of construction and urbanization projects. This reflected in the dramatic increase in income in 1977 when several projects scheduled for 1976 completion were finished. The increase in the ratio of earnings on total capital employed shown in the lower part of the Balance Sheet is a reflection of above mentioned increases in income. Government

subsidies as a percentage of total operating income has averaged 19% over the four year period.

These financial statements demonstrate INVU's financial viability as public sector development institution. INVU is able to operate effectively providing shelter to the masses with a minimum of GOCR subsidies.

## INVU

CONDENSED COMPARATIVE INCOME STATEMENTS<sup>1/</sup>

For the Years Ending December 31, 1974, 1975, 1976 and 1977

(US\$ 000)

<u>INCOME</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
Interest Income	\$1,985.3	\$2,543.8	\$3,020.2	\$3,597.4
Rental Income	88.8	108.1	313.5	303.3
Other Operating Income	<u>1,562.3</u>	<u>1,484.6</u>	<u>539.1</u>	<u>5,136.5</u>
Total Operating Income	<u>\$3,636.4</u>	<u>\$4,136.5</u>	<u>\$3,872.8</u>	<u>\$9,037.2</u>
	22%	21%	29%	2%
<u>EXPENSES</u>				
Administration	\$1,686.5	\$2,147.7	\$2,890.8	\$3,555.7
Interest and Commissions	326.5	1,167.6	1,982.8	2,393.4
Depreciation	<u>46.4</u>	<u>50.3</u>	<u>61.7</u>	<u>66.2</u>
Total Operating Expenses	<u>\$2,059.4</u>	<u>\$3,365.6</u>	<u>\$4,935.3</u>	<u>\$6,015.3</u>
Net Income (Loss) from Operations	<u>\$1,577.0</u>	<u>\$ 770.9</u>	<u>(\$1,062.5)</u>	<u>\$3,021.9</u>
<u>OTHER INCOME AND EXPENSES (NET)</u>				
Government Subsidies	\$ 808.8	\$ 858.0	\$1,135.6	\$ 127.4
Other	( 1,265.0)	<u>75.8</u>	<u>62.3</u>	<u>607.1</u>
Total Other	<u>(\$ 456.2)</u>	<u>\$ 933.8</u>	<u>\$1,197.9</u>	<u>\$ 734.5</u>
Net Income for the Year	<u>\$1,120.8</u>	<u>\$1,704.7</u>	<u>\$ 135.4</u>	<u>\$3,756.4</u>
<u>Adjustments to Retained Earnings</u>				
(Net) <sup>2/</sup>	<u>\$ 95.0</u>	<u>\$ 13.5</u>	<u>(\$ 134.5)</u>	<u>( 437.9)</u>
Net Increase in Retained Earnings	<u>\$1,215.8</u>	<u>\$1,718.2</u>	<u>\$ 0.9</u>	<u>\$3,318.5</u>

Notes:

1/ Excerpted from Audited Financial Statements, at an Exchange Rate of \$1.00 = ₧ 8.54

2/ In addition to including adjustments for prior year operations, this account includes transfers to/from certain reserve accounts.

## INVU

CONDENSED COMPARATIVE BALANCE SHEETS<sup>1/</sup>

As of December 31, 1974, 1975, 1976 and 1977

(US\$ 000)

<u>ASSETS</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1977</u>
<u>Current Assets</u>				
Cash on hand and in banks	\$ 114.9	\$ 6.7	\$ 39.4	\$ 225.7
Current portion of loans receivable	2,254.1	2,723.1	2,886.4	2,910.3
Inventory	425.4	255.9	286.5	192.1
Accounts Receivables	466.3	1,318.9	372.5	1,409.9
Short Term Investments	66.8	16.3	261.7	78.2
Prepaid Expenses	51.8	70.4	63.6	54.5
Total Current Assets	<u>\$ 3,379.3</u>	<u>\$ 4,391.3</u>	<u>\$ 3,912.1</u>	<u>\$ 4,870.7</u>
<u>Non-Current Assets</u>				
Loans Receivable	\$24,706.0	\$26,849.4	\$ 31,798.8	\$ 42,708.9
Fixed Assets (Net)	1,377.3	1,553.9	2,150.7	3,390.7
Long-Term Investments	12,415.7	16,246.5	19,536.2	14,143.0
Total Non-Curr. Assets	<u>\$38,499.0</u>	<u>\$44,649.8</u>	<u>\$ 53,485.7</u>	<u>\$ 60,242.6</u>
Total Assets	<u>\$41,878.3</u>	<u>\$49,041.1</u>	<u>\$ 57,397.8</u>	<u>\$ 65,113.3</u>
<u>LIABILITIES AND CAPITAL</u>				
<u>Current Liabilities</u>				
Cash Deposits	\$ 2,474.0	\$ 3,131.9	\$ 4,201.1	\$ 5,030.3
Bonds Payable	163.9	503.0	601.6	936.8
Accounts Payable	2,279.6	1,784.5	1,947.0	4,460.6
Total Curr. Liabilities	<u>\$ 4,917.5</u>	<u>\$ 5,419.4</u>	<u>\$ 6,749.7</u>	<u>\$ 10,428.2</u>
<u>Non-Current Liabilities</u>				
Bonds Payable	\$ 1,422.0	\$ 6,298.5	\$ 13,907.6	\$ 14,083.8
Accounts Payable	6,804.2	6,781.6	6,202.9	6,620.3
Special Construction Reserve	622.1	677.2	618.3	830.9
Deferred Income	--	33.7	87.7	--
Total Non-Current Liabilities	<u>\$ 8,848.3</u>	<u>\$13,791.0</u>	<u>\$ 20,816.5</u>	<u>\$ 21,535.0</u>
Total Liabilities	<u>\$13,765.8</u>	<u>\$19,210.4</u>	<u>\$ 27,566.2</u>	<u>\$ 31,963.2</u>
<u>Capital</u>				
Donated Capital	\$ 9,274.0	\$ 9,274.0	\$ 9,274.0	\$ 9,274.0
Retained Earnings	18,838.5	20,556.7	20,557.6	23,876.1
Total Capital	<u>\$28,112.5</u>	<u>\$29,830.7</u>	<u>\$ 29,831.6</u>	<u>\$ 33,150.1</u>
Total Liabilities and Capital	<u>\$41,878.3</u>	<u>\$49,041.1</u>	<u>\$ 57,397.8</u>	<u>\$ 65,113.3</u>
<u>Ratios</u>				
Current	.69:1.00	.81:1.00	.58:1.00	.47:1.00
Total Debt to Equity	.49:1.00	.64:1.00	.92:1.00	.96:1.00
Earnings on Total Capital Employed	2.90%	3.50%	--	5.10%

<sup>1/</sup> Excerpted from Audited Financial Statements

Exchange Rate \$1.00 = £ 8.54

RL:edl

IFAM - FINANCIAL STATEMENT ANALYSIS

IFAM, the second major institution involved in the HIG Program has responsibilities for: extending loans to municipalities, acting as financial agent for the municipalities, acting as a central purchasing agent for the municipalities and providing technical assistance.

As reflected in the financial statements, during the period 1974 to 1976, IFAM's earmarked tax revenues increased \$1.4 million; from \$1.3 million to \$2.7 million. The increase in fixed assets and land acquisition from \$50,000 in 1974 to a projected \$476,000 in 1977 is indicative of IFAM's plans to provide increased services to the municipalities.

IFAM's balance sheet reflects a constant growth pattern. Total Assets grew from \$4.6 million in 1974 to \$10.0 million in 1976 and current assets more than doubled in that same period. The liability and equity section of IFAM's balance sheet perhaps best reflects both IFAM's and the GOCR's commitment of municipal development. During the three year period 1974-1976 total liabilities and capital increased 116% and IFAM's role in municipal development was accordingly expanded.

Financial ratios shown on the lower part of IFAM's Balance Sheet reflect a very favorable current position and debt equity ratio. The current ratio is indicative of IFAM's ability to meet current liabilities. The debt equity ratio indicates that constant growth pattern of IFAM's assets was financed through equity capital rather than long term debt. The ratio of current revenue generated by total assets which increased from .21/1 in 1974 to .35/1 in 1976 is a reflection of IFAM increasingly efficient and productive use of this assets.

I.F.A.M.

ACTUAL REVENUE AND EXPENDITURES FOR 1974, 1975, 1976

(US \$ 000)

CURRENT REVENUE	<u>1974</u>	<u>1975</u>	<u>1976</u>
Taxes	\$1,263.6	\$2,337.3	\$2,705.1
Income	195.3	332.3	654.6
Transfers	43.1	9.1	113.9
	<u>\$1,502.0</u>	<u>\$2,678.7</u>	<u>\$3,473.6</u>
CAPITAL REVENUE			
Transfers	\$1,202.8	\$ 937.9	\$ 892.0
Previous Yr. Earnings	796.6	767.6	586.7
Loans Repaid	218.9	708.2	648.0
Sale of Assets	-	-	8.2
Financing Obtained	-	35.4	1,522.1
	<u>\$2,218.3</u>	<u>\$2,449.1</u>	<u>\$3,657.0</u>
TOTAL REVENUE	<u>\$3,720.3</u>	<u>\$5,127.8</u>	<u>\$7,130.6</u>
CURRENT EXPENDITURES			
Personal Compensation	\$ 585.1	\$ 766.5	\$1,042.9
Goods and Services	222.0	368.4	1,169.5
Current Transfers	345.8	543.4	488.4
Interest	-	7.6	57.9
	<u>\$1,152.9</u>	<u>\$1,685.9</u>	<u>\$2,758.7</u>
CAPITAL EXPENDITURES			
Acquisition of Fixed Assets and Land	\$ 50.2	\$ 114.3	\$ 202.0
Loans	1,749.9	2,364.6	1,835.2
Transfers	-	376.3	526.4
Non-Allocated Loan Repayments	-	-	-
	<u>\$1,800.1</u>	<u>\$2,855.2</u>	<u>\$2,563.6</u>
TOTAL EXPENDITURES	<u>\$2,953.0</u>	<u>\$4,541.1</u>	<u>\$5,322.3</u>
EXCESS OF REVENUE			
OVER EXPENDITURES	<u>\$ 767.3</u>	<u>\$ 586.7</u>	<u>\$1,808.3</u>

I.F.A.M.BALANCE SHEET FOR 1974, 1975, 1976

(US \$ 000)

CURRENT ASSETS	<u>1974</u>	<u>1975</u>	<u>1976</u>
Cash	\$ 324.7	\$ 142.7	\$ 429.6
Receivables & Def.Charges	202.0	252.9	439.4
Inventory	11.6	10.6	19.4
Short-Term Investment	516.4	1,233.6	1,654.1
Prepaid Expenses	.6	2.0	1.4
	<u>\$1,055.3</u>	<u>\$1,641.8</u>	<u>\$2,543.9</u>
NON-CURRENT ASSETS			
Fixed Assets (NET)	255.8	332.7	539.6
Long-Term Receivables	<u>3,300.4</u>	<u>4,861.5</u>	<u>6,890.3</u>
TOTAL ASSETS	<u>\$4,611.5</u>	<u>\$6,836.0</u>	<u>\$9,973.8</u>
CURRENT LIABILITIES			
Payables & Accrued Exp.	\$ 143.4	\$ 257.6	\$ 208.7
Deferred Credits		<u>2.0</u>	<u>70.4</u>
	<u>\$ 148.2</u>	<u>\$ 259.6</u>	<u>\$ 279.1</u>
NON-CURRENT LIABILITIES			
Long-Term Notes	70.6	345.9	1,967.7
CAPITAL AND RESERVES			
Capital	1,171.0	1,171.0	1,222.7
Reserve	<u>3,221.7</u>	<u>5,059.5</u>	<u>6,504.3</u>
	<u>\$4,392.7</u>	<u>\$6,230.5</u>	<u>\$7,727.0</u>
TOTAL LIABILITIES AND CAPITAL	<u>\$4,611.5</u>	<u>\$6,836.0</u>	<u>\$9,973.8</u>
CURRENT RATIO	7.1:1	6.3:1	9.1:1
DEBT/EQUITY RATIO	.02:1	.06:1	.25:1
RATIO OF CURRENT REVENUES GENERATED BY TOTAL ASSETS	.23:1	.39:1	.35:1

ANALYSIS OF PROJECTED CASH FLOWS

Cash Flow projections and sub-loan estimates of the Infrastructure Loan Fund appear in this Annex. The assumptions used in preparation of the cash flow were developed in collaboration with SER/H and ROCAP/RHIDD personnel. The Cash Flow table demonstrates that the Infrastructure Loan Fund will generate \$22.8 million in sub-loans over 15 years from an initial \$6.0 million.

An average annual return on total capital employed by IFAM, the agency administering the fund, of approximately 3.2%, indicates that the majority of benefits will not be captured by the implementing agency (IFAM), but rather will flow primarily to the target group. At the same time IFAM will find the fund attractive because (1) it will not result in a loss to their overall operation and (2) it does not require any investment, since IFAM will be granted \$3.0 million by the GOCR specifically for use in this project.

The other major portion of the Housing element of this project is the Housing Loan Fund, which will be administered by INVU and will require inputs totaling \$9,080 million. Of this, AID/HIG will loan \$8.4 million, while the GOCR will contribute \$680,000. A breakdown of specific elements to be financed with these funds follows:

<u>Elements</u>	(US\$000)		
	<u>HIG</u>	<u>GOCR</u>	<u>Total</u>
Sites and Services	5,390	680	6,070
Home Improvement	2,860	-	2,860
Land Purchase and Titling	<u>150</u>	<u>-</u>	<u>150</u>
Total	<u>8,400</u>	<u>680</u>	<u>9,080</u>

The Cash Flow projections for the Housing Loan Fund show that INVU will not profit through the administration of the fund but will find the project attractive since it provides additional funds for their client group enabling them (INVU) to expand their operations.



During the projected fifteen year period, the Housing Loan Fund will provide \$20.3 million in sub-loans. It is expected that INVU will make over \$11.1 million in sites and services sub-loans and over \$9.2 million in both home improvement and tenancy upgrading sub-loans.

The repayment of sub-loans to both the infrastructure and housing elements of the Housing Fund will be effected by various means depending on the program component in question. Briefly, the method used for each component will be as follows:

a) Community upgrading (Infrastructure Loan Fund)

In the instance of community upgrading projects, cost recovery will be effected through a combination of user fees and benefit assessments. In the case of water and sewage projects falling within the jurisdiction of "Agua y Alcantarillado" and electric projects done by "Fuerza y Luz", cost recovery will be recovered by the respective municipal governments (or utility companies?) through benefit assessments.

b) Sites and Services

Cost recovery for the sites and services projects, including incremental unit construction financed through project sources will be by means of monthly loan repayments by the respective beneficiary.

c) Home Improvement and Expansion

Cost recovery in the home improvement and home expansion component will be through monthly loan repayments by the beneficiaries.

d) Land Purchase Tenure Legalization and Registration

Cost recovery for this component will be as in c) above.

All off site and primary infrastructure costs are to remain the responsibility of the GOCR and will be recovered through general tax revenues.

ASSUMPTIONS  
for

Cash Flow Projections of  
Housing and Infrastructure Fund

- HIG Loan of \$11.4 million will be made for 30 years at 9-1/2%, including the AID guarantee fee. The 30 year term will include a 10 year grace period. Additionally, a 1%, one-time fee will be charged on drawdowns of HIG funds.
- Funds will be drawdown as follows:

Period	(US\$000) Shelter Element 1/			(US\$000) Community Infrastructure			(US\$000) TOTAL		
	HIG	GOCR	Total	HIG	GOCR	Total	HIG	GOCR	Total
12/79	209	-	209	320	320	640	529	320	849
6/80	1,061	85	1,146	405	405	810	1,466	490	1,956
12/80	2,093	170	2,263	446	446	892	2,539	616	3,155
6/81	2,093	170	2,263	1,177	1,177	2,354	3,270	1,347	4,617
12/81	1,913	170	2,083	652	652	1,304	2,565	822	3,387
6/82	1,031	85	1,116	-	-	-	1,031	85	1,116
Total	8,400	680	9,080	3,000	3,000	6,000	11,400	3,680	15,080

- All Loans and Grants are subloaned during the year drawdown to the extent that cash requirements allow except that funds drawdown at the end of a year are reloaned the following year.
- Subloan terms are as follows:
  - A - Infrastructure Subloans - 10%, 10 year term, no grace period.

Source: Project Delivery Plan rounded to the nearest million.

1/ Does not include \$320,000 from down payment as estimated.

B - Housing Subloans

- (i) Tenancy Upgrading and Home Improvement - 12%, 7 year term, no grace period.
  - (ii) Sites and Services Program - 12%, 18 year term, no grace period. Based on the fact that 66.6% of the loans will be made at 20 years and the remaining 33.3% at 15, an average of 18 years.
5. Annual interest receipts are based on the average portfolio of the respective years.
  6. Cash available at the beginning of a year plus 75% of prior year sub-loan principal collections are reloaned to the extent cash requirements allow.
  7. Administrative costs are assumed at 1-1/2% of average portfolio during each year except the first. The first year assumes 5% to cover start-up costs.
  8. Bad Debts are assumed at 1% of average portfolio on housing sub-loans.
  9. Annual collections of principal on all sub-loans are made the first day of the year following that in which the sub-loan was made.
  10. A 5% down payment on all sites and services sub-loans will be charged.

CASH FLOW PROJECTIONS  
Consolidated Tenancy Upgrading and Sites and Services  
INVU  
(US\$ 000)

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Year	CASH SOURCES						CASH USES							Ending Cash	Average Portfolio
	Begin Cash	ATD	GOCR	Interest Collections	Principal Collections	Total Cash Sources	HIG		Bad Debts	Adm. Exp.	Front End	Sub Loans	Total Cash Uses		
		HIG					Principal	Interest							
1	-	1,270	85	74	-	1,429	-	121	7	31	13	1,229	1,401	28	615
2	28	4,186	340	403	117	5,074	-	518	34	51	42	4,385	5,030	44	3,364
3	44	2,944	255	823	489	4,555	-	798	69	92	29	3,214	4,202	353	6,860
4	353	-	-	984	753	2,090	-	798	82	123	-	703	1,706	384	8,197
5	384	-	-	987	825	2,196	-	798	82	123	-	926	1,929	267	8,223
6	267	-	-	989	920	2,176	-	798	82	123	-	865	1,868	308	8,246
7	308	-	-	985	1,010	2,303	-	798	82	122	-	977	1,979	324	8,202
8	324	-	-	979	1,114	2,417	-	798	81	122	-	1,058	2,059	358	8,158
9	358	-	-	977	1,146	2,481	-	798	81	122	-	1,170	2,171	310	8,141
10	310	-	-	978	1,157	2,445	-	798	82	122	-	1,144	2,146	299	8,147
11	299	-	-	978	1,044	2,321	156	798	82	123	-	1,055	2,214	107	8,145
12	107	-	-	964	1,096	2,167	170	784	81	122	-	867	2,024	143	8,037
13	143	-	-	940	1,110	2,193	186	767	78	117	-	936	2,084	109	7,835
14	109	-	-	916	1,134	2,159	204	750	76	114	-	905	2,049	110	7,634
15	110	-	-	887	1,140	2,137	223	730	73	110	-	887	2,023	114	7,393

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CASH FLOW PROJECTIONS  
IFAM  
INFRASTRUCTURE  
(U.S. \$000)

Year	CASH SOURCES					CASH USES					Ending Cash	Average Portfolio	Net Income (Loss)	Return on Fund Assets		
	Beg. Cash	AID/HIG	GOCR	Interest Collections	Principal Collections	Total Cash Sources	HIG Principal	HIG Interest	Admin.	Front End Fee					Sub-Loans	Total Cash Uses
1	-	725	725	71	-	1,521	-	69	35	7	1,410	1,521	-	705	(40)	(2.8)
2	-	1,623	1,623	296	141	3,683	-	223	44	16	3,246	3,529	154	2,963	13	.3
3	154	652	652	506	466	2,430	-	285	76	7	1,564	1,932	498	5,064	138	2.3
4	498	-	-	573	623	1,694	-	285	86	-	848	1,219	475	5,726	202	3.2
5	475	-	-	596	708	1,779	-	285	89	-	942	1,316	463	5,955	222	3.5
6	463	-	-	617	803	1,883	-	285	93	-	994	1,372	511	6,168	239	3.6
7	511	-	-	637	903	2,051	-	285	96	-	1,113	1,494	557	6,368	256	3.8
8	557	-	-	658	1,013	2,228	-	285	99	-	1,234	1,618	610	6,584	274	3.9
9	610	-	-	681	1,136	2,427	-	285	102	-	1,370	1,757	670	6,811	294	4.0
10	670	-	-	705	1,273	2,648	-	285	106	-	1,522	1,913	735	7,053	314	4.1
11	735	-	-	731	1,424	2,890	55	285	110	-	1,690	2,140	750	7,310	336	4.3
12	750	-	-	763	1,452	2,965	61	280	114	-	1,818	2,273	692	7,626	369	4.6
13	692	-	-	805	1,307	2,804	66	274	121	-	1,781	2,242	562	8,046	410	4.8
14	562	-	-	839	1,330	2,731	73	268	126	-	1,542	2,009	722	8,389	445	4.8
15	722	-	-	866	1,400	2,988	80	261	130	-	1,720	2,191	797	8,655	475	4.9

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PROJECT DELIVERY PLAN - SHELTER AND COMMUNITY INFRASTRUCTURE PROJECTS

Semester	Credit Shelter (INVU) (\$000s)		(\$000s)		Total Credit (\$000s)		Total Credit (\$000s)		Down Payments	Financing (\$000s)		Housing	
	Sites & Services Period	Home Improvement Period	Land Purchase Period	Titling Period	Shelter Period	Total	Community Period	Infrastructure Total		GOCR Counterpart Period	Total	Guaranty Period	Total
1	-	-	-	-	-	-	-	-	-	-	-	-	-
2-12/79	-	179.16 (188 loans)	23.5 (20 lots)	6.48 (80 titles)	209.14	209.14	641.8	-	-	320.9	-	320	320
3-6/80	798.75 (250 lots)	357.38 (375 loans)	23.5 (20 lots)	6.48 (80 titles)	1186.11	1395.25	812.1	39.94	491.05	-	1470	1790	
4-12/80	1597.5 (500 lots)	714.75 (750 loans)	23.5 (20 lots)	6.48 (80 titles)	2342.23	3737.48	892.8	79.88	616.4	-	2550	4340	
5-6/81	1597.5 (500 lots)	714.75 (750 loans)	23.5 (20 lots)	6.48 (80 titles)	2342.23	6079.23	2364.3	79.88	1352.15	-	3280	7620	
6-12/81	1597.5 (500 lots)	535.59 (562 loans)	23.5 (20 lots)	6.48 (80 titles)	2163.07	8242.78	1308.6	6019.6	79.88	834.1	2730	10350	
7-6/82	798.75 (250 lots)	357.38 (375 loans)	-	-	1156.13	9398.91	-	-	39.94	85.0	3699.6	1050	11400
Total	6390.0 (2000 lots)	2860.0 (3000 loans)	117.5 (100 lots)	32.5 (400 titles)	9400.00	-	6000.0	320.0	-	3680.0	-	11400	