

No. 18868

**UNITED STATES OF AMERICA
and
COSTA RICA**

Project Loan Agreement for urban employment and community improvement (with annex). Signed at San José on 30 August 1978

Authentic texts: English and Spanish.

Registered by the United States of America on 30 May 1980.

**ÉTATS-UNIS D'AMÉRIQUE
et
COSTA RICA**

Accord de prêt pour un projet destiné à accroître l'emploi dans les communautés urbaines et à améliorer leur condition (avec annexe). Signé à San José le 30 août 1978

Textes authentiques : anglais et espagnol.

Enregistré par les États-Unis d'Amérique le 30 mai 1980.

PROJECT LOAN AGREEMENT¹ BETWEEN THE GOVERNMENT
OF COSTA RICA AND THE UNITED STATES OF AMERICA
FOR URBAN EMPLOYMENT AND COMMUNITY IM-
PROVEMENT

Date: August 30, 1978

A.I.D. Loan No. 515-W-028

A.I.D. Project No. 515-0153

PROJECT LOAN AGREEMENT

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* Not printed herein. The annex is deposited in the archives of the Department of State where it is available for reference. (Information supplied by the Government of the United States of America.)

¹ Came into force on 30 August 1978 by signature.

PROJECT LOAN AGREEMENT dated August 30, 1978, between the GOVERNMENT OF COSTA RICA and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT (A.I.D.).

Article I. THE AGREEMENT

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article II. THE PROJECT

Section 2.1. DEFINITION OF THE PROJECT. The Project, which is further described in annex I, Amplified Description of the Project, will consist of assistance to the Borrower in financing a project designed to increase employment and productivity and to improve the living conditions of San José's urban poor; and to institutionalize a coordinated government-supported system for reducing urban poverty which is replicable elsewhere in Costa Rica. Annex I, attached, amplifies the above definition of the Project.

Within the limits of the above definition of the Project, elements of the amplified description stated in annex I may be changed by written agreement of the authorized representatives of the Parties named in section 9.3., without formal amendment of this Agreement.

Article III. FINANCING

Section 3.1. THE LOAN. To assist the Borrower to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed five million five hundred thousand United States (U.S. dollars \$5,500,000) (Loan). The aggregate amount of disbursements under the Loan is referred to as "Principal".

The Loan may be used to finance foreign exchange costs, as defined in section 7.1., and local currency costs, as defined in section 7.2., of goods and services required for the Project.

Section 3.2. BORROWER RESOURCES FOR THE PROJECT. (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of eleven million three hundred and ninety thousand United States ("U.S.") dollars (\$11,390,000) including costs borne on an in-kind basis.

Section 3.3. PROJECT ASSISTANCE COMPLETION DATE. (a) The Project Assistance Completion Date (PACD), December 31, 1981, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for

services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursements, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 8.1, no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Borrower, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article IV. LOAN TERMS

Section 4.1. INTEREST. The Borrower will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding disbursed balance of the Loan and on any due and unpaid interest. Interest on the outstanding disbursed balance will accrue from the date (as defined in section 8.5) of each respective disbursement, and will be payable semi-annually.

The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

Section 4.2. REPAYMENT. The Borrower will repay to A.I.D. the Principal within twenty (20) years from the date of the first disbursement of the loan in twenty one (21) approximately equal semi-annual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with section 4.1. A.I.D. will provide the Borrower with an amortization schedule in accordance with this section after the final disbursement under the Loan.

Section 4.3. APPLICATION, CURRENCY AND PLACE OF PAYMENT. All payments of interest and Principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

Section 4.4. PREPAYMENT. Upon payment of all interest and any refunds then due, the Borrower may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

Section 4.5. RENEGOTIATION OF TERMS. (a) The Borrower and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Costa Rica, which enable the Borrower to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to section 9.2., and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to section 9.2., the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of the Borrower's Minister of Finance in Costa Rica.

Section 4.6. TERMINATION UPON FULL PAYMENT. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Borrower and A.I.D. will cease.

Article V. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 5.1. FIRST DISBURSEMENT. Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

- (a) A legal opinion of the Attorney General of Costa Rica or other legal counsel acceptable to A.I.D. to the effect that the Project Agreement has been duly authorized and/or ratified by Borrower and executed on its behalf and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all its terms;
- (b) A certified statement of the name(s) of the person(s) authorized under the Project Agreement to act as the representative(s) of Borrower under the Project Agreement with the authenticated specimen signature(s) of said representative(s);
- (c) Evidence that an Interagency Coordinating Committee composed of representatives of the Ministry of the Presidency, the National Planning Office (OFIPLAN), 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;
- (d) An implementation plan and estimated budgets for all loan-financed activities; and
- (e) Copies of signed inter-agency agreements which define proposed work plans and operating procedures of participating Ministries and implementing agencies.

Section 5.2. CONDITIONS PRECEDENT TO DISBURSEMENT FOR SMALL INDUSTRY COMPONENT. Prior to disbursements under the Loan, or the issuance by A.I.D. of documentation pursuant to which disbursements will be made under the Loan for financing credit for small industries, the Borrower will, 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, Industry and Commerce's Small Industry and Artisan Department (DGATPIA) has hired and trained sufficient field staff to respond to the projected technical assistance requirements of small industrialists;
- (c) Evidence that the Borrower has established a Productive Credit Guaranty Program or similar credit guaranty program, acceptable to A.I.D., which contains adequate contingent reserves to cover potential losses on sub-loans made under the Project.

Section 5.3. CONDITIONS PRECEDENT TO SUB-LENDING FOR WORKER-OWNED AND OPERATED FIRMS (WOOFS). Prior to disbursement under the Loan or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made under the Loan for financing credit for Worker-Owned and Operated Firms (WOOFS), the Borrower will, except as otherwise agreed in writing by A.I.D., furnish to A.I.D., 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.

Section 5.4. NOTIFICATION. When A.I.D. has determined that the Conditions Precedent specified in sections 5.1, 5.2, and 5.3. have been met, it will promptly notify the Borrower.

Section 5.5. TERMINAL DATES FOR CONDITIONS PRECEDENT. (a) If all of the Conditions specified in section 5.1. have not been met within 180 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Borrower.

(b) If all of the Conditions specified in section 5.2. have not been met within 180 days from the date of this Agreement or such later date as A.I.D. may agree to in writing, and/or all of the conditions specified in section 5.3. have not been met within 360 days from the date of this Agreement or such later date as A.I.D. may agree to in writing, A.I.D. at its option may cancel the then undisbursed balance of the Loan to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the Borrower. In the event of such termination, the Borrower will repay immediately the Principal then outstanding and any accrued interest. On receipt of such payments in full this Agreement and all obligations of the Parties hereunder will terminate.

Article VI. SPECIAL COVENANTS

Section 6.1. (a) PROJECT EVALUATION. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include during the implementation of the Project and at one or more points thereafter: (i) evaluation of progress toward attainment of the objectives of the Project; (ii) identification and evaluation of problem areas or constraints which may inhibit such attainment; (iii) assessment of how such information may be used to help overcome such problems; (iv) evaluation, to the degree feasible, of the overall development impact of the Project.

(b) MAINTENANCE OF SMALL INDUSTRY FUND. Except as A.I.D. may otherwise agree in writing, the Borrower agrees that it will maintain the level of the Small Industry credit portfolio at no less than \$11.4 millions during a period of at least five years after the end of the Project.

(c) BORROWER CONTRIBUTION. The Borrower agrees that of its counterpart contribution to the Project, no less than \$3.3 million will be provided for sub-lending to small industries.

(d) USE OF SUB-LOANS. The Borrower agrees 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.

(e) INTEREST RATE STUDY. The Borrower agrees 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.

Article VII. PROCUREMENT SOURCE

Section 7.1. FOREIGN EXCHANGE COSTS. Disbursements pursuant to section 8.1. will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in countries included in Code 941, except for countries which are members of the Central American Common Market, of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the "Project Loan Standard Provisions", annex II,¹ section C.1 (b) with respect to marine insurance.

Section 7.2. LOCAL CURRENCY COSTS. Disbursements pursuant to section 8.2. will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in Costa Rica and countries which are members of the Central American Common Market ("Local Currency Costs"), except as A.I.D. may otherwise agree in writing.

Article VIII. DISBURSEMENTS

Section 8.1. DISBURSEMENTS FOR FOREIGN EXCHANGE COSTS. (a) After satisfaction of Conditions Precedent, the Borrower may obtain disbursements of funds under the Loan for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

- (i) By submitting to A.I.D. with necessary supporting documentation as prescribed in Project Implementation Letters: requests for reimbursement for such goods or services; or requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or
- (ii) By requesting A.I.D. to issue Letters of Commitment for specified amounts to one or more U.S. banks, committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services or directly to one or more

¹ See asterisk, p. 208 of this volume.

contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

Section 8.2. DISBURSEMENTS FOR LOCAL CURRENCY COSTS. (a) After satisfaction of Conditions Precedent, the Borrower may obtain disbursements of funds under the Loan for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

- (i) By acquisition by A.I.D. with U.S. dollars by purchase (or from local currency already owned by the U.S. Government); or
- (ii) By A.I.D. requesting the Borrower to make available the local currency for such costs, and thereafter making available to the Borrower, through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee, an amount of U.S. dollars equivalent to the amount of local currency made available by the Borrower, which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

Section 8.3. OTHER FORMS OF DISBURSEMENT. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

Section 8.4. RATE OF EXCHANGE. Except as may be more specifically provided under section 8.2., if funds provided under the Loan are introduced into Costa Rica by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Borrower will make such arrangements as may be necessary so that such funds may be converted into currency of Costa Rica at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Costa Rica.

Section 8.5. DATE OF DISBURSEMENT. Disbursements by A.I.D. will be deemed to occur:

- (a) On the date on which A.I.D. makes a disbursement to the Borrower or its designee, or to a Bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order;
- (b) On the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with section 8.2. (b) (i); or
- (c) If local currency is obtained in accordance with section 8.2. (b) (ii), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article IX. MISCELLANEOUS

Section 9.1. INVESTMENT GUARANTY PROJECT APPROVAL. Construction work to be financed under this Agreement is agreed to be a project approved by Costa Rica pursuant to the agreement between it and the United States of America on the subject of investment guaranties, and no further approval by Costa Rica will be required to permit the United States to issue investment guaranties under that agreement covering contractor's investment in that project.

Section 9.2. COMMUNICATIONS. Any notice, request, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Borrower:

Mail Address:

Ministry of Finance
San José, Costa Rica

Alternate address for telegrams:

MINIHACIENDA
San José, Costa Rica

To A.I.D.:

Mail Address:

USAID/COSTA RICA
U.S. Embassy
San José, Costa Rica

Alternate Address for telegrams:

USAID/AMEMBASSY
San José, Costa Rica

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The Borrower, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D./Washington.

Section 9.3. REPRESENTATIVES. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Minister of Finance and A.I.D. will be represented by the individual holding or acting in the office of the Mission Director, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under section 2.1. to revise elements of the amplified description in annex I. The names of the representatives of the Borrower, with specimen signatures, will be provided to A.I.D., which may accept as fully authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 9.4. STANDARD PROVISIONS ANNEX. A "Project Loan Standard Provisions Annex"¹ (annex II)¹ is attached to and forms part of this Agreement.

¹ See asterisk, p. 208 of this volume.

Section 9.5. LANGUAGE OF THE AGREEMENT. This Agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.

IN WITNESS WHEREOF the Borrower and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

EN FE DE LO CUAL, el Gobierno de Costa Rica y el de los Estados Unidos de Norte América, cada uno actuando por medio de sus representantes debidamente autorizados, han hecho que este Acuerdo se firme en su nombre, y se ejecute a partir de la fecha y el año que lo encabezan.

República de Costa Rica:

[*Signed — Signé*]

RODRIGO CARAZO ODIO
Presidente de la República

[*Signed — Signé*]

HERNÁN SÁENZ JIMÉNEZ
Ministro de Hacienda

Los Estados Unidos de Norte América:

[*Signed — Signé*]

MARVIN WEISSMAN
Ambassador of the United States
of America to Costa Rica

[*Signed — Signé*]

STEPHEN P. KNAEBEL
Director
United States A.I.D. Mission
to Costa Rica

ANNEX I

PROJECT DESCRIPTION

I. INTRODUCTION

The goal of the Project is to increase the income and improve the quality of life of San José's urban poor. This will be accomplished by institutionalizing a coordinated government-supported system for providing services which will reduce the incidence as well as the effects of urban poverty. By the end of the Project, this system will be fully operating in the San José Metropolitan Area and will be available for replication in other urban areas of the country.

The Project consists of three inter-related activities: employment and productivity; shelter and community infrastructure; and urban policy, planning and project administration. The employment and productivity component of the Project is directed at increasing the effective labor supply through training and placement services for the un- and under-employed and by generating new employment opportunities for the unskilled and semi-skilled through provision of guaranteed credit, technical assistance and training for small industries. In addition, the Project will finance an experiment with worker-owned firms.

The shelter and infrastructure improvement component will address the problem of poor housing and substandard community infrastructure and services in selected *núcleos* in the Metropolitan Area. The Project will finance various shelter solutions (sites and services, core housing, home improvement loans, land purchase and titling) as well as community infrastructure projects (water, sewer, and drainage systems, paving, and electrification) which are geared to the ability of the poor to pay. The financing for this component will be provided through a subsequent Housing Investment Guarantee Program as well as through AID loan and Borrower counterpart funds.

The urban policy, planning and project administration component will finance technical assistance, studies, training and support costs to improve the effectiveness of the Government's urban planning apparatus and to coordinate implementation of the Project.

The Project will be administered by a special unit to be established within the Office of the Presidency. It will be responsible to an inter-agency committee which will coordinate Project activities of the following agencies: Ministry of Finance; National Planning Office (OFIPLAN); Social Welfare Institute (IMAS); Ministry of Labor; National Apprenticeship Institute (INA); Ministry of Economy, Industry and Commerce (MEIC); National Banking System (SBN); Technological Institute of Costa Rica (ITCR); National Community Development Office (DINADECO); Municipal Development Institute (IFAM); and National Housing Institute (INVU).

II. EMPLOYMENT AND PRODUCTIVITY

This component is divided into two parts, one addressing the supply of labor and the other addressing demand for labor.

A. *Increasing the Labor Supply*

The objective of this part is to place 8,000 unemployed and under-employed urban poor in jobs. Three thousand will be trained prior to placement and three thousand will be trained on-the-job. It is expected that two thousand will not need training but will need placement services. Accomplishing this objective will require an inter-agency agreement, coordinating activities of IMAS, the Ministry of Labor and INA.

IMAS, through its extension agents, will seek out job candidates from low income urban neighborhoods (*tugurios*), direct them to the nearest Ministry of Labor Employment Service Office, and provide subsidies to needy INA trainees. To carry out its worker identification, follow-up, and administrative functions, IMAS will supplement its social

work staff by approximately 15 persons (3 assigned to each of the San José Metropolitan zonal offices) and supply and equip the offices for them.

The Ministry of Labor's Employment Service will identify existing job vacancies, interview and test candidates to determine job skills and aptitudes, place candidates who possess required skills directly into available jobs, refer others for training and administer an on-the-job training program. In addition the Ministry of Labor will conduct periodic establishment surveys to determine actual and projected job vacancies and job skill requirements. These surveys will be conducted every six months and will estimate actual and projected labor demand. This information and other data will be used by the Borrower 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).

To fulfill its responsibilities under the Project, the Ministry of Labor will increase its staff in manpower and statistics by six technicians, in employment placement by about 23 people and in on-the-job training by four people. Technical assistance, training, vehicles, office furniture and equipment and overhead costs will support these efforts.

INA will be responsible for all but the on-the-job portion of the training program, drawing up courses in response to characteristics of the job openings and candidates presented by the Ministry of Labor. To plan and conduct courses for 3,000 people, INA will increase its staff, purchase training equipment, rent training facilities and cover other operational costs accordingly.

B. *Increasing Labor Demand*

The objective of the second part of the employment and productivity component is to establish a guaranteed credit fund and a technical assistance and training program for small urban industries to increase productivity and to generate employment for the urban poor. It is estimated that during the three years of Project activity approximately 970 small industries will be assisted with credit, technical assistance and management training, as needed, and that some 3,500 new jobs will be created. Up to 120 additional people will be joint worker-owners in an experimental program to create and manage up to three worker-owned industries.

The three principal entities participating in this aspect of the Project are the Ministry of Economy, Industry and Commerce, the National Banking System and INA.

To reach the estimated 970 firms, the Project will expand the Ministry of Economy's Small Industry and Artisanry Office's (DGATPIA) technical assistance program. In this program DGATPIA technicians will develop work plans recommending loans, direct technical assistance, and/or training for small industrialists. If credit is needed, the technicians will assess the financial and technical feasibility of the intended credit use and assist the small industrialists in completing their loan requests. All small industry credit requests seeking guarantee coverage will require approval by a DGATPIA technician. DGATPIA will provide direct technical assistance from its own staff or from other sources to resolve specific technical problems encountered in small industries. It will also prepare 35 feasibility reports indicating expansion possibilities and distribute a series of 25 easy-to-read instructional pamphlets.

This more intensive and expanded program of DGATPIA will require the hiring and training of an additional 36 individuals, increased budgetary support for larger projected operating expenses, the purchase of vehicles and various types of office equipment, and funds to cover the costs of publications and office renovations. The Project will also provide up to 28 person-months of technical assistance and 6 person-months of specialized in-country training.

When DGATPIA technicians find that small industrialists need to upgrade their basic entrepreneurial skills, they will refer them to INA's courses in business management and accounting, production technology, employee relations and marketing. INA will also

canvass areas with high concentrations of small industrialists to enable it to select appropriate courses, the timing and location of such courses, and their method and content. Over the life of the Project, INA will conduct 40 courses for up to 800 small industrialists.

To offer these courses, INA will hire and train seven additional full time staff members, finance participant surveys and necessary travel, and purchase instructional equipment.

The small businessman's lack of technical skill will be addressed through the aforementioned training and technical assistance programs. To respond to his credit needs, a loan fund, a guaranty system and a series of banking reforms will be established. AID will allocate up to \$2.5 million in loan funds and the Borrower will provide \$3.3 million for small industrial credit. The National Banking System will establish a guaranty fund for lending to small industry, and will take other steps to increase the flow of credit to this group, such as increased promotion of credit, standardization and simplification of documentation, and the use of the Ministry of Economy as a technical assistance agency.

The Project includes the creation of up to three worker-owned and operated firms (WOOFs) as an experiment to determine if the worker ownership concept is organizationally feasible and if these firms can return to the worker-owners adequate wages and profits. Loan funding will provide credit and technical assistance to the three WOOFs as well as limited financial assistance to the government institution which 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) produce a detailed plan describing the legal and social structure of the three WOOFs and the necessary steps for their creation and operation; (2) contract for management of the WOOFs with a qualified Costa Rican business entity; (3) provide technical assistance to the WOOFs as needed; and (4) evaluate the experiment after an adequate period of observation.

III. SHELTER AND COMMUNITY INFRASTRUCTURE

The objectives of the shelter and community infrastructure component are to establish a lot legalization process; provide 1,000 serviced lots with sanitary core and 1,000 serviced shell houses; make 3,000 loans for home improvement, 400 loans for title registration and 100 loans for lot purchases; establish a valorization system; and construct \$6.0 million of urban infrastructure which responds to the needs of local communities, as expressed by community associations.

The Project will promote an integrated, coordinated approach using DINADECO (community organization), INVU (housing construction) and IFAM (municipal development) to implement and institutionalize the program. 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 Guaranty (HIG), a Borrower's contribution of \$3,680,000, and up to \$426,000 of AID loan funds. While this component will be the subject of a separate implementation agreement, due to the nature of the housing investment guaranty program, it is described here because of its relationship to the rest of the Program.

Therefore, it is the intention of the parties hereto to negotiate, execute and implement a companion Agreement under the AID-HIG authority. Subject to the execution of the foregoing Agreement, the Borrower agrees as follows:

1. To provide \$426,000 from the proceeds of this loan for technical assistance in support of the shelter and infrastructure activities of the envisioned HIG Project.
2. From Borrower resources, INVU will provide \$680,000 in support of the shelter activities of the HIG and the Borrower will provide \$3,000,000 to IFAM in support of the infrastructure activities of the Housing Investment Guarantee Project.

The provision of the Borrower's funds mentioned above and the terms and conditions related to the \$11,400,000 provided by United States private investors and guaranteed by the AID Housing Investment Guarantee Program for the shelter and infrastructure component of this Project, as described herein, will be the subject of a separate Agreement. This Agreement is to be negotiated and executed by the parties at a future date.

A. *Shelter Improvement*

1. *Sites and Services*

An estimated 2,000 families 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: serviced lots with a sanitary core on which the buyer can quickly construct a temporary shelter which may be improved over time; and serviced lots with a 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 shelter on their own.

2. *Home Improvements*

DINADECO, as part of its outreach function, 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 applicant's house and suggest improvements, review proposals and check completed work. The work will be performed by small contractors. Credit checks, disbursements, and collections will be administered by INVU's financial office.

3. *Land Purchase and Titling*

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. 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 thus will provide the Borrower practical experience in dealing with different kinds of solutions.

B. *Community Improvement*

IFAM will create a \$6 million fund to finance infrastructure projects all located in areas designated as deteriorated by the Borrower. Preference will be given to those projects which benefit the largest percentage of low income families and improve the health and safety conditions of the target area. Nineteen neighborhoods or *nucleos* have already been selected as appropriate initial areas for these activities, based on the need for infrastructure improvements and the number of poor people living in these neighborhoods.

The Community Development Associations will be assisted by DINADECO in preparing proposals—water, drainage, and sewer systems, paving, lighting—for municipalities to submit to IFAM to study and if acceptable, to finance and supervise. The construction will be performed by private contractors, except for those involving water and sewage, which will be carried out by the Water and Sewage Authority (AyA).

These projects will be paid for through a valorization system, with assessments on the property of individual beneficiaries. IFAM will provide technical assistance to the municipalities in determining levels of assessment affordable by the poor. IFAM will also finance community improvements associated with INVU's efforts under the home improvement and land purchase and titling elements of this Project.

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 Assistance Division.

C. *Technical Assistance and Training Shelter*

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 Jose Metropolitan Area. 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 program. 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/Costa Rica in monitoring program implementation.

In addition, technical assistance will be provided to assist INVU to develop procedures that will assure maximum benefits to home improvement loan recipients; to assist IFAM to organize a valorization unit; to help DINADECO to promote and organize community development efforts in urban areas.

Training in the United States and third countries will support creation of an effective valorization unit in IFAM and strengthen DINADECO's staff capability.

Vehicles, office equipment and audio-visual equipment will be purchased for DINADECO's metropolitan zone office.

IV. URBAN POLICY, PLANNING AND PROJECT ADMINISTRATION

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.

A. *Policy*

To assist in the development of comprehensive urban policies, the Project will conduct a series of studies which:

1. Analyze institutional changes which could lead to improved coordination and Project execution;
2. Examine the effect of current urban policies on increasing employment opportunities and services to the poor.
3. Determine the economic and social effects of artificially low interest;
4. Analyze the implications of factor pricing policies and labor intensive technology for the hardcore unemployed; and
5. Develop housing finance and interest rate policies.

In addition, short-term assistance in the methodology and process for developing a housing policy will be provided.

B. *Planning*

This Project will finance up to 39 person-months of technical assistance to help the Borrower 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; and (4) the continued mobility of the poor within urban areas and their ability to take advantage of non-geographically targeted programs. The result will 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.

This element will also finance 10 person-years of overseas training for OFIPLAN staff in public policy analysis and formulation as well as the costs of evaluating the entire Project.

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 and Administration 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 establish inter-agency sub-committees as needed to ensure proper coordination and program operations involving discrete functional areas (e.g., 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).

V. FINANCIAL PLAN

(Thousands of U.S. dollars)

<i>Components</i>	<i>AID</i>	<i>HIG</i>	<i>Borrower</i>	<i>Total</i>
1. Employment and Productivity				
A. Labor Supply				
a. Forecasting job demand (MOL)	42.5	—	167	209.5
b. Contact, referral, placement and on-the-job training (IMAS, MOL)	237	—	1,051	1,288
c. Job training (INA, MOL)	367	—	830	1,197
B. Labor Demand				
a. Small business technical assistance (DGATPIA) .	244.5	—	750	994.5
b. Training (INA)	15	—	250	265
c. Credit (SBN)	2,500	—	3,300	5,800
d. Worker-Owned and Operated Firms	1,054	—	500	1,554
2. Shelter and Community Infrastructure				
A. Shelter Improvement				
a. Sites and services (INVU)	—	5,390	680	6,070
b. Home improvements (INVU)	—	2,860	—	2,860
c. Land purchase and titling (INVU)	—	150	—	150
B. Community Improvements (IFAM)	—	3,000	3,000	6,000
C. Technical Assistance and Training (INVU, IFAM, DINADECO)	426	—	762	1,188

	<i>Components</i>	<i>AID</i>	<i>HIG</i>	<i>Borrower</i>	<i>Total</i>
3.	Urban Policy, Planning and Project Administration				
A.	Urban Policy	145	—	—	145
B.	Planning and Evaluation	413	—	—	413
C.	Project Administration	56	—	100	156
		<u>5,500</u>	<u>11,400</u>	<u>11,390</u>	<u>28,290</u>
