

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COSTA RICA

**PROGRAM TO PROTECT THE JOBS AND INCOMES OF VULNERABLE
POPULATIONS AFFECTED BY CORONAVIRUS IN COSTA RICA**

(CR-L1144)

LOAN AND NONREIMBURSABLE FINANCING PROPOSAL

This document was prepared by the project team consisting of: David Rosas (SCL/LMK), Project Team Leader; Alison Elias (SCL/MIG) Alternate Project Team Leader; Yyannu Cruz Aguayo (SCL/LMK); Rafael Novella (SCL/LMK); Oscar Arboleda (SCL/LMK); Luis Tejerina (SCL/SPH); Rhina Cabezas (CID/CID); Priscilla Gutierrez (CID/CCR); Blanca Torrico (CTI/CCR); William Ernest (DIS/CCR); Maria Elizondo (CID/CCR); Andrea García Valero (SCL/LMK); Loreto Biehl (EDU/CCR); Andrea Saldarriaga (SCL/GDI); David Ruiz (CID/CCR); Enrique Barragán (LEG/SGO); Miguel Baruzze (VPC/FMP); Raul Lozano (VPC/FMP); Pilar Larreamendy (VPS/ESG); Carlos Tovar (consultant); Fernando Grafe (consultant); David Robalino (consultant); and Diego Richard (consultant).

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ABBREVIATIONS

ANE	National Employment Agency
BP	Bono Proteger transfer program
CCTP	Conditional cash transfer program
ECG	Evaluation Cooperation Group
ECLAC	Economic Commission for Latin America and the Caribbean
ESMR	Environmental and social management report
ESS	Environmental and Social Strategy
GRF	IDB Grant Facility
IMAS	Instituto Mixto de Ayuda Social [Joint Institute for Social Aid]
INEC	National Statistics and Census Institute
MS	Ministry of Health
MTSS	Ministry of Labor and Social Security
OC	Ordinary Capital
PES	Public Employment Services
SICERE	Costa Rican Institute of Social Security
WHO	World Health Organization

PROGRAM SUMMARY

COSTA RICA PROGRAM TO PROTECT THE JOBS AND INCOMES OF VULNERABLE POPULATIONS AFFECTED BY CORONAVIRUS IN COSTA RICA (CR-L1144)

Financial Terms and Conditions					
Borrower:			Flexible Financing Facility ^(a)		Nonreimbursable financing (GRF)
Republic of Costa Rica			Amortization period:	25 years	N/A
Executing agency:			Disbursement period:	2 years	2 years
Ministry of Labor and Social Security (MTSS)			Grace period:	5.5 years ^(b)	N/A
Source	Amount (US\$)	%	Interest rate:	LIBOR-based	N/A
IDB (Ordinary Capital):	245,000,000	92.5	Credit fee:	(c)	N/A
IDB (GRF) ^(d)	20,000,000	7.5	Inspection and supervision fee:	(c)	N/A
			Weighted average life (WAL):	15.25 year	N/A
Total:	265,000,000	100	Approval currency:	U.S. dollars	
Project at a Glance					
Project objective/description: The general development objective of this program is to contribute to ensuring minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19. The specific objective is to support the minimum levels of income and employment of the national and migrant population affected by coronavirus in the immediate period and during the recovery.					
Special contractual conditions precedent to the first disbursement of the loan proceeds: (i) key staff will have been selected (financial management specialist and procurement specialist) to take responsibility for the program within the program coordination unit; and (ii) the program auditor will have been selected, based on terms of reference previously agreed upon with the Bank (paragraph 3.3).					
Exceptions to Bank policies: None.					
Strategic Alignment					
Challenges^(e):	SI	<input checked="" type="checkbox"/>	PI	<input checked="" type="checkbox"/>	EI <input type="checkbox"/>
Crosscutting themes:^(f)	GD	<input checked="" type="checkbox"/>	CC	<input type="checkbox"/>	IC <input type="checkbox"/>

- ^(a) Under the terms of the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency, interest rate, and commodity conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- ^(b) Under the flexible repayment options of the Flexible Financing Facility, changes to the grace period are permitted provided that they do not entail any extension of the original weighted average life of the loan or the last payment date as documented in the loan contract.
- ^(c) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of the Bank's lending charges, in accordance with the applicable policies.
- ^(d) Nonreimbursable financing. The GRF is the IDB Grant Facility. Pursuant to document GN-2947-6, the IDB financing structure for this operation includes a combination of a maximum of 20% in nonreimbursable resources (GRF) and 80% reimbursable resources (Ordinary Capital). The resources from the GRF will be disbursed simultaneously and proportionally with the loan proceeds from the Ordinary Capital.
- ^(e) SI (Social Inclusion and Equality); PI (Productivity and Innovation); and EI (Economic Integration).
- ^(f) GD (Gender Equality and Diversity); CC (Climate Change and Environmental Sustainability); and IC (Institutional Capacity and Rule of Law).

I. PROGRAM DESCRIPTION AND RESULTS MONITORING

A. Background, problem to be addressed, and rationale

- 1.1 On 11 March 2020, the World Health Organization (WHO) declared the outbreak of COVID-19, the disease caused by the 2019 novel coronavirus, or SARS-CoV-2, which affects the respiratory system, a pandemic. As of this writing (14 May), according to WHO, there are 4,248,389 confirmed cases globally, which have resulted in 294,000 deaths.¹ The first cases in Latin America and the Caribbean were reported in late February; since then, cases have grown quickly, with 430,331 confirmed cases of COVID-19 and 24,462 reported deaths.² The number of cases and deaths is expected to continue rising. COVID-19 can be easily spread from person to person through respiratory secretions³ and direct contact. For this reason, social distancing and isolation measures are essential features of the public health response with the goal of reducing the number of healthy people whom a patient can infect (known as the reproduction number) or, stated another way, the average number of new cases generated by a case over time, to a value below 1.
- 1.2 Costa Rica is not immune to this situation. In early March, the first case of COVID-19 was identified, and as of 14 May, there were 815 cases and 7 deaths, with the Ministry of Health (MS) projecting the peak contagion in May. This situation has led the authorities to declare a state of national emergency, which helps streamline administrative, operational, and budgetary regulations to provide a more agile response to the crisis.
- 1.3 **Macroeconomic and/or social context.** Costa Rica's economic performance has been relatively solid over the last decade. Between 2010 and 2019, the economy grew 3,9%, above the average for Latin America and the Caribbean (2.1%), as a result of a growth model based on open markets and trade integration and the attraction of foreign direct investment (FDI) In social terms, the population has virtually universal access to primary education and health care services (1).⁴ These achievements have culminated in the country's incorporation as the thirty-eighth member of the Organisation for Economic Co-operation and Development (OECD).⁵ Despite these advances, fiscal sustainability, a necessary condition for sustained economic growth and social welfare, has been compromised in recent years by relatively low levels of tax revenue and accelerated growth in current expenditure, particularly wages and transfers, which have eroded the space for productive public investment. This combination of factors explains the sustained deterioration of the government's financial balance over the last decade, which went from a surplus of 0.2% of gross domestic product (GDP) in 2008 to a deficit of 5.9% of GDP in 2018, doubling public debt from 24% of GDP to 54% of GDP. Despite the implementation of the Law to Strengthen Public Finances approved in

¹ See [WHO COVID-19 Situation Dashboard](#) as of 14 May 2020.

² <https://www.paho.org/en/topics/coronavirus-infections/coronavirus-disease-covid-19>.

³ <https://www.who.int/es/emergencies/diseases/novel-coronavirus-2019/advice-for-public/q-a-coronaviruses>.

⁴ [Optional link 11](#).

⁵ Costa Rica received a formal invitation to join the OECD on 15 May 2020.

- 2018, the central government deficit reached its highest level in 40 years at year-end 2019, due in part to the economic slowdown and increased payment of interest on debt (4.2% of GDP). The primary and financial deficits reached 2.8% and 6.9% of GDP in 2019, respectively, while public debt remains on a trend to exceed 60% of GDP in 2020. This situation has resulted in the downgrading of the sovereign credit rating, which will increase financing costs and the country's refinancing risk in the short and medium terms.
- 1.4 The country's difficult fiscal position will be aggravated by the COVID-19 crisis. Financing needs are expected to exceed 12% of GDP in 2020 and 2021, with more than 37% of the total debt maturing in 2023. Against this backdrop, the Government of Costa Rica has requested emergency funding from multilateral financial institutions, a Rapid Financing Instrument (RFI) with the IMF for US\$504 million (awaiting ratification by the Legislative Assembly) and a loan in the Special Development Lending (SDL) category with the IDB for US\$250 million.
 - 1.5 **Intraregional immigration poses additional challenges.**⁶ Costa Rica has a time-honored tradition of welcoming immigrants and refugees, mainly from Nicaragua and Colombia, and more recently, from El Salvador and Venezuela. There are currently 610,240 refugees and migrants, 75% with regular immigration status. Intraregional cross-border migrants account for 9% of the country's population [\(2\)](#), [\(3\)](#). Most immigrated due to economic reasons and intend to stay, while many have settled in economically disadvantaged areas. Of this population, 36% are living in poverty and 17% lack access to social protection support.
 - 1.6 **Problem addressed.** The health measures necessary to fight COVID-19, particularly social distancing, have had immediate impacts and will have lasting consequences in the region's countries. The economic impacts of the coronavirus are associated with the necessary changes in people's behavior to "flatten the curve" of coronavirus progression, which will contribute to saving lives. These behaviors may be the result of government mandates (closing schools, canceling public events, etc.), decisions made by companies and other institutions (teleworking, cutting back production, etc.), and decisions made by consumers (reducing social contact). This will lead to a very significant economic downturn with immediate manifestations and lingering effects, even once the health emergency is over. From a macroeconomic perspective, in addition to shrinking domestic demand, the Economic Commission for Latin America and the Caribbean (ECLAC) sees at least five channels through which the impacts of the crisis will be passed on to the region's economy:⁷ (i) slowing economic activity of key trading partners that will impact the demand for exports; (ii) less demand for tourism services; (iii) interruption of global value chains; (iv) falling commodity prices; and (v) worsening financial terms.
 - 1.7 The repercussions of the crisis will adversely affect most people's incomes, particularly vulnerable groups, including the migrant population, which depends on their work activities, which are largely informal (without social security coverage), to

⁶ [Optional link 6](#).

⁷ [ECLAC](#).

support their consumption. Thus, ECLAC projects that the number of people in poverty will rise by at least 35 million (from 185 to 220 million). This situation also puts workers in the formal sector at risk, where companies will face major difficulties in maintaining pre-crisis levels of employment and wages. It is estimated that formal job losses could affect between 5.4 million and 18 million workers, and informal employment could reach 62% of all employment [\(4\)](#).

1.8 The crisis will impact economic growth and employment in Costa Rica.

According to the International Monetary Fund (IMF), economic growth for 2020 is expected to be -3.3%.⁸ The main channels for transmission of the impact are: reduced international trade; decreased tourism; lower revenue for the creative and entertainment industry; reduced domestic demand; worsening fiscal conditions; and increased poverty and unemployment. Among companies, estimates show that the most affected will be micro, small, and medium-sized enterprises. These companies make up 95% of the economy and account for nearly 400,000 jobs. In addition, according to estimates, 42.3% of employees work in sectors that are vulnerable to job losses ([International Labour Organization](#)); between 110,000 and 330,000 formal employees will lose their jobs; and there are 1 million informal workers [\(4\)](#). Some economic sectors will be particularly impacted. Tourism, which accounts for 8% of GDP and 9% of jobs, is among them. In this sector, the majority of the businesses (99%) are micro and small enterprises, which employ 77% of the workers.⁹ Tourism activities are expected to decrease almost 50% in 2020, resulting in a 52% job reduction—from 211,000 jobs in 2019 to 101,280 this year [\(5\)](#).

1.9 When the crisis erupted, the labor market's main indicators were already deteriorating. In recent years, growth in formal jobs has stagnated and the unemployment rate has doubled to more than 12% (it is also higher for women than for men: 16.7% and 9.6%, respectively). In 2019, informal workers accounted for 47% of the workforce [\(6\)](#). Estimates show that among informal workers, 50% work for someone else and the remainder are self-employed, have a business, or are employers. The employment situation among vulnerable groups is worse: in 2019, 42.5% of people ages 15–29 were unemployed and 48.4% of women held informal jobs.¹⁰ Among working women, 51.4% work in sectors that were seriously impacted by the crisis. The labor force participation rate for immigrants is high (72% of Nicaraguans and 63% of other nationalities, compared to 57% of Costa Ricans). In addition, immigrants are a significant source of labor in the affected sectors, such as commerce (Venezuelans: 32%, Nicaraguans: 21.3%), services (Venezuelans: 25%), and construction (Nicaraguans: 14.7%). Since they also face barriers accessing social security benefits and social programs, the crisis affects them disproportionately.

1.10 Given this situation, Costa Rica needs to implement countercyclical labor policies to mitigate the effects of the crisis on employment and income.

⁸ [World Economic Outlook, April 2020](#).

⁹ Some of these companies are in the metropolitan area, while others are in areas with a high proportion of vulnerable populations.

¹⁰ [Optional link 8](#)

Countries have several options to achieve this ([optional link 3](#)) ([6](#)). Given the nature of this program, only policies that can be implemented immediately (social isolation) and on a short-term basis (economic crisis) were included. They are grouped based on their objectives and beneficiaries: (i) policies to protect the incomes of informal and unemployed workers who do not benefit from transfer programs, aimed at maintaining a minimum consumption level. In the immediate period, these will be temporary, unconditional cash transfer programs. In the short term, these transfers may be conditioned upon job training or work (public employment programs) to help people improve their job skills and facilitate their reintegration into the workforce; (ii) policies to protect formal workers at risk of losing their jobs or already unemployed, aimed at maintaining employment levels and ensuring a minimum consumption level for laid off workers or those with reduced incomes. Both in the immediate period and the short term, programs will be implemented to lower labor costs through wage subsidies subject to businesses not laying off their workers and/or job-sharing mechanisms to enable the reduction of working hours and wages in order to maintain employment. In addition, it will be possible to relax eligibility requirements and increase unemployment insurance benefits; and (iii) job training and intermediation policies, aimed at facilitating formal job placement for informal workers and workforce reintegration for those who became unemployed because of the crisis. Job intermediation policies are generally implemented through public employment services, which among other functions, serve as job intermediaries, provide job information, and offer training ([7](#)). Job training policies are intended to update and enhance the job skills of informal and unemployed workers, both transversal ([21st century skills](#)) and technical skills ([8](#)), in order to enable them to find jobs.

- 1.11 **Challenges and progress. The Costa Rican government is taking steps to respond immediately to the coronavirus pandemic's impact on the labor market.** The country lacks several of the countercyclical policies mentioned, such as unemployment insurance. In addition, the informal sector has been growing, particularly among vulnerable groups. To address the crisis in this context, among other measures,¹¹ the government is implementing a strategy to maintain the jobs and income of vulnerable workers. First, **to protect formal workers at risk of becoming unemployed**, it added flexibility to its labor laws for three months. Not only has the government authorized a temporary suspension of work contracts,¹² but it is also promoting job-sharing mechanisms to enable companies to reduce working hours.¹³ The government specifically authorized companies that experienced a drop in gross revenue of at least 20% to reduce by up to 50% their employees' working hours, and as a result, their wages, for the regular work

¹¹ Other measures are: (i) a three-month moratorium on tax payments, payable by 31 December of the current year; (ii) a freeze on wage increases for government employees; (iii) a 75% reduction in the minimum tax base for social security; (iv) payment of social security contributions based on actual working hours; (v) inclusion of COVID-19 in workers' compensation insurance; and (vi) distribution of money from the Workers' Pension Fund to the workers impacted.

¹² [Decree 2042248](#).

¹³ [Law 9832](#).

schedule agreed upon between the parties, for three months (extendable to up to six months).¹⁴

- 1.12 Second, the creation of the US\$1.955 billion Plan Proteger, equivalent to 3% of GDP, was announced on 19 March **to protect informal workers; independent workers;¹⁵ and workers unemployed as a result of the crisis; and to compensate formal workers impacted by the measures mentioned above for their total or partial income reductions.**¹⁶ As part of this plan, on 20 April, the Ministry of Labor and Social Security (MTSS), in coordination with the Joint Institute for Social Aid (IMAS), began to provide monthly cash transfers for three months, under a program known as Bono Proteger.^{17 18} The amounts vary based on the job status of applicants:¹⁹ (i) ₡125,000 (approximately US\$220) for the unemployed, workers with a total income reduction, workers with a majority income reduction above 50%, independent workers, and informal workers; and (ii) ₡62,500 (approximately US\$110) for workers with a partial income reduction of 50% or less. The MTSS and the IMAS share responsibility for disbursing the Bono Proteger funds. The IMAS will provide these payments to low-income independent workers and will receive transfers from the MTSS for this purpose. The MTSS will be responsible for making direct payments to the remaining beneficiaries (Decree 42305-MTSS-MDHIS).²⁰ The transfer allocation process includes two stages. First, individuals (including foreigners with regular immigration status) applying for the Bono Proteger program need to register, provide information, and submit identity documents through an electronic platform.
- 1.13 Second, the applicant's eligibility will be verified. In addition to job impact criteria, a point system was established to prioritize the distribution of vouchers to low-income people, people living in extreme poverty, women, women heads of household, people over age 65, people with disabilities, and large households. To determine which applicants should receive benefits and prevent duplicates, a number of databases containing individual and family information are being used: the Costa Rican Institute of Social Security (SICERE); the Supreme Court of Elections (National Register of Voters); the National Information System and Unified Registry of State Beneficiaries (SINIRUBE);²¹ the Ministry of Finance; the Central Bank (National Electronic Payment System); and the Bureau of Migration and Foreign Affairs (Integrated Foreign Affairs System). If a beneficiary is deemed

¹⁴ Employers with a decline in revenue exceeding 60% can reduce working hours and wages by up to 75%.

¹⁵ Independent workers are considered potential beneficiaries, whether or not they pay taxes required under the law.

¹⁶ A partial reduction refers to workers whose working hours decreased 50% or less; a majority reduction refers to workers whose working hours decreased more than 50%.

¹⁷ People living in conditions of poverty or extreme poverty are considered beneficiaries of this program.

¹⁸ [Plan Proteger](#).

¹⁹ The parameter used to set the voucher amount was the average cost of the basic basket of food items per household, including family members and workers.

²⁰ Pursuant to this decree, the IMAS will disburse 11.4% of total available resources to beneficiaries and the MTSS will disburse the remainder.

²¹ SINIRUBE is a consolidated socioeconomic database covering 80% of households, which the government uses to provide social program benefits. [Optional link 9](#).

eligible, the government will deposit the applicable transfer monthly into their bank account. Beneficiaries without bank accounts will receive support to open one.²² As of 15 May 2020, it was taking seven calendar days to complete the process, from registration to beneficiaries receiving their vouchers. However, this timeline may be affected by the resources available for the MTSS and the IMAS. The verification phase is conducted fully online.

- 1.14 Bono Proteger is being provided using a one-year free grant of a software and server platform offered by the Continuum Data Center.²³ Since this is a temporary arrangement, after that program ends, the MTSS will need to develop, improve, and/or purchase its own beneficiary management and data storage system to consolidate its systems for recordkeeping, customer service, and beneficiary monitoring. Along with that system, changes need to be made in MTSS processes and personnel. In addition, the system will include high cybersecurity standards and databases with the necessary controls to protect sensitive beneficiary information and comply with national data protection laws.
- 1.15 **This strategy will be supplemented with measures to protect the income of informal and unemployed workers in the short term and maintain formal employment in strongly impacted sectors, such as tourism.** First, the Costa Rican government plans to offer cash subsidies subject to training for informal and unemployed workers. For these purposes, after the period of social distancing, the MTSS plans to use its employment program, known as Empléate²⁴ ([optional link 9](#)), which was created in 2012 and focuses on job placement through the development of transversal and technical skills in areas with high demand for labor. Therefore, the entity intends to establish a direct dialogue with the productive sector.²⁵ The program offers monthly monetary subsidies (¢195,000 or US\$343) and is based on three elements: (i) identifying employers recruiting workers, and signing agreements under which the MTSS commits to training a certain number of people to meet the company's specific needs and the company commits to including beneficiaries in its recruitment process; (ii) identifying a training provider within the MTSS supplier network and connecting them with each company to develop a customized curriculum; and (iii) registering and selecting beneficiaries. Potential beneficiaries apply by completing a form available online. Costa Ricans and foreigners with regular immigration status are eligible, as long as they fulfill these requirements: (a) have low income or are unemployed or underemployed; (b) are over age 15; (c) live in the area where the program is carried out; (d) have completed elementary school; and (e) have an account at a banking institution. Lastly, Empléate provides subsidies to the beneficiaries

²² As of 12 May, 737,000 voucher requests had been received and 414,000 had been paid; also, more than 47,000 people had opened bank accounts.

²³ Continuum customized a platform it uses for commercial purposes to the specific operating needs for Bono Proteger.

²⁴ This is part of [national employment program PRONAE](#), which seeks to promote classroom or virtual training for the unemployed or underemployed, particularly in vulnerable communities, to increase their opportunities to join the labor market.

²⁵ Costa Rica also has a National Employment System and a National Employment Agency, which make up the Public Employment Service.

throughout the duration of their educational program. Resources are deposited directly into beneficiaries' accounts, and beneficiaries are responsible for paying training fees to the institution. Once beneficiaries complete their course, the MTSS will serve as the intermediary with employers. For 2020, Empléate expected to have approximately 11,000 beneficiaries.

- 1.16 Empléate needs strengthening to enable it to respond quickly and efficiently during the period of economic recession. For instance, its job placement rate for 2019 was only 21%. The program needs the following improvements: identify the needs of companies in sectors that start creating jobs, particularly outside the metropolitan area, and increase its outreach and relationships with these companies; implement mechanisms to improve the relevance of the training offered and to ensure that all courses include transversal skills modules; develop a modern digital platform to improve beneficiary registration and monitoring, which is interoperable with the Bono Proteger platform; strengthen its performance-based management; and increase its coverage, particularly in the short term.
- 1.17 As a second part of the strategy, the government is considering expanding the protection of formal jobs during the economic recession, focusing on the sectors that are hardest hit and whose economic recovery is going to be delayed, such as tourism. Therefore, it is beginning to design a program of wage subsidies for companies in this sector. This program will be: (i) based on a percentage of the company's gross payroll (includes the cost of social security contributions paid by the employer and other parafiscal taxes); (ii) conditioned upon the number of jobs that the company commits to maintain; (iii) focused on companies with fewer than 100 employees; (iv) focused on the most affected geographic areas and/or those with the highest probability of leading the economic recovery; and (v) based on prioritizing certain groups of workers (such as young people).
- 1.18 **Rationale and strategy.** Large-scale compensatory policies will be needed to offset the loss of income and jobs caused by the crisis. It is also important to have policies that directly address the effects on the labor market, in order to provide income to the most vulnerable population and reduce job losses, which in addition to having social costs would result in lost productivity and delayed economic recovery. Therefore, there are plans to implement a system of temporary, unconditional cash transfers for the duration of the crisis. Specifically, support will be given to provide vouchers (as detailed in paragraphs 1.12 and 1.13) to approximately 367,000 people, including at least 30,000 immigrants impacted by the situation. In addition, nearly 4,300 subsidies conditioned upon training will be provided to enhance skills and facilitate job placement for vulnerable people, both informal workers and those unemployed due to the crisis. Lastly, targeted wage subsidies for the tourism sector will be provided, intended to maintain formal jobs in the short term for at least 18,000 people.
- 1.19 As mentioned above (paragraph 1.13), the Bono Proteger program uses a point system to prioritize the allocation of transfers to vulnerable groups, such as women and people with disabilities. Job training measures will be implemented with differentiated approaches based on gender and diversity.
- 1.20 **Bank experience and lessons learned.** Since the 1990s, the Bank has supported the design, implementation, and assessment of cash transfer programs in

18 countries in the region. Assessments have shown that these transfers are the most effective instrument to redistribute resources and support consumption for vulnerable families. Less evidence is available on the effects of transfers in situations such as the current crisis, although evidence from humanitarian crises may be relevant. This evidence indicates that humanitarian assistance through cash reduces poverty [\(9\)](#). There is also evidence on the advantages of having a register of potential beneficiaries and using it during emergency situations [\(10\)](#), as well as the importance of favoring timeliness over precision when it comes to targeting [\(11\)](#). Lastly, cash transfers have been a building block to support the social and economic reintegration of the world's migrant populations²⁶ [\(12\)](#). There is also evidence that increasing workforce participation among women accelerates economic growth [\(13\)](#) and increases the income of households headed by women [\(14\)](#).

- 1.21 Moreover, resources for nonreimbursable technical-cooperation operation ATN/OC-14965-CR were used to collect evidence about the Bridge to Development Strategy, which expanded the interoperability of SINIRUBE with other administrative sources of data, achieving the current coverage of 80% of the country's total population. In addition, algorithms based on machine learning were used through technical cooperation operation ATN/OC-16717-RG at SINIRUBE to improve the classification of households living in poverty so they could benefit from public programs. Lastly, operational experience indicates that assessing the vulnerability status of households, recording it in information systems, and processing payments require time and fieldwork. Making payments in remote areas may require cash distributions and involve the gathering of crowds. In a context of social distancing and needs for a rapid crisis response, it is strategic to use existing social protection systems as a base and prioritize payments through bank accounts or other electronic means. These lessons were considered in designing the Bono Proteger program (subcomponents 1.1 and 2.1), which includes an electronic platform for beneficiary requests and approvals that interoperates with SINIRUBE and other administrative registries. Payments made to beneficiary bank accounts are also included.
- 1.22 With respect to job training and intermediation, knowledge generation and good practices are available for both, as well as experience obtained executing projects that include these elements. All these lessons were incorporated into the design of subcomponent 1.2. First, the conceptual frameworks that guide analyses and solutions are based on the key functions of the training and labor intermediation systems [\(15\)](#), [\(16\)](#). For example, the significance of having a close relationship with the productive sector is taken into account, to ensure that course curriculums provide the skills that companies need. Second, based on experience in Peru (operations ATN/OC-14539-PE and ATN/OC-14539-PE), mechanisms to identify the skills needed by the productive sector are used to begin a suitable adaptation of curriculums to make them relevant. Also, based on experience in Chile (loan CH-L1095, 3539/OC-CH), one of the improvements being considered for the Empléate program is using results-based quality indicators.

²⁶ [International Rescue Committee.](#)

- 1.23 Lastly, there is also evidence of the effectiveness of labor subsidy programs at the company level, to reduce the number of layoffs and the probability of companies shutting down due to temporary liquidity problems and to contribute to a faster recovery with respect to activity and jobs [\(17\)](#), [\(18\)](#). Therefore, subcomponent 2.2 includes the design of a wage subsidy to maintain jobs in tourism companies, one of the main sectors impacted by the COVID-19 crisis.
- 1.24 **Coordination with other multilateral and/or cooperation agencies.** The Bank has coordinated the response to the COVID-19 crisis with other international organizations. With respect to the social repercussions, the Bank shares the assessments of the IMF, the World Bank, the United Nations Development Programme (UNDP), and ECLAC, and the proposals presented herein are consistent with the goal of protecting those who are most vulnerable from COVID-19 and supporting the necessary health measures to deal with the pandemic and promote economic recovery in the medium term. It has also been coordinating with the World Association of Public Service Employees (WAPES) to assess the main obstacles these services are facing during the crisis and obtain information on the employment measures developed countries have been taking. Coordination with the International Organization for Migration (IOM) is also taking place. With respect to channeling emergency financing to Costa Rica, the Bank has closely coordinated the use of an instrument known as Special Development Lending with the IMF, which in turn approved financing for the country under its Rapid Financing Instrument. The Bank has ongoing communications with the World Bank and the Andean Development Corporation (CAF) to report requests for support from the countries and explore specific areas for collaboration. Total multilateral financing is expected to be US\$2.734 billion, including US\$380 million from the IDB-Agence Française de Développement (decarbonization); US\$1.05 billion from CAF; US\$300 million from the World Bank; US\$250 million from the Central American Bank for Economic Integration; US\$504 million from the IMF; and US\$250 million from the IDB (SDL), in addition to this operation.
- 1.25 Support has been requested from the Spanish General Cooperation Fund under technical cooperation funding ATN/FG-17260-RG²⁷ to provide technical assistance to the MTSS for the Bono Proteger platform and enhancements to Empléate, benefitting the vulnerable and migrant populations.
- 1.26 **Strategic alignment.** The program is consistent with the second Update to the Institutional Strategy (document AB-3190-2) and aligned with the challenges of: (i) social inclusion and equality, through support for maintaining minimum levels of income and welfare for the populations most vulnerable to COVID-19; and (ii) productivity and innovation, through actions to maintain employment levels and preserve human capital. The program is also aligned with the crosscutting area of: (i) gender equality and diversity, by prioritizing populations vulnerable to COVID-19, including, for example, women and persons with disabilities.²⁸ The

²⁷ Program/Facility to Support the Design and Implementation of Institutional Strengthening Operations and Activities for the Migration Agenda in Latin America and the Caribbean.

²⁸ As mentioned in paragraph 1.15, a point system is used to prioritize allocation of the transfer to low-income individuals or those living in extreme poverty, women, female heads of household, persons over 65, and larger households.

program will contribute to the Corporate Results Framework (CRF) 2020-2023 (document GN-2727-12) through the following indicators: beneficiaries of targeted anti-poverty programs and beneficiaries of employment support initiatives. The program is aligned with the Strategy on Social Policy for Equity and Productivity (document GN-2588-4) in the areas of enhancing equity and supporting vulnerable populations. It is also consistent with the Social Protection and Poverty Sector Framework Document (document GN-2784-7), which underscores the importance of supporting vulnerable populations, particularly from external shocks, through responsive social protection policies, and with the Labor Sector Framework Document (document GN-2741-7) through the following dimensions of success: (i) the region's citizens have more, and more equitable, opportunities to access formal jobs with better wage expectations; and (ii) workers are more productive and, consequently, obtain higher wages and more stable employment. This program is consistent with the Proposal for the IDB Group's Governance Response to the COVID-19 Pandemic Outbreak (document GN-2996).

B. Objectives, components, and cost

- 1.27 **Objectives.** The general development objective of this program is to contribute to ensuring minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19. The specific objective is to support the minimum levels of income and employment of the national and migrant population affected by coronavirus in the immediate period and during the recovery. The operation is structured as two components:²⁹
- 1.28 **Component 1. Protection for the vulnerable population not on the rolls of transfer programs, working in the informal sector (IDB Ordinary Capital: US\$60.1 million, IDB Grant Facility: US\$4.5 million).**
- 1.29 **Subcomponent 1.1. Protection for informal workers (US\$54.6 million).** This subcomponent is aimed at maintaining the minimum consumption level for these workers, and will finance: (i) cash transfers to approximately 80,840 informal workers eligible to receive the Bono Proteger, which includes payments of ₡125,000 per month (US\$221); (ii) purchasing, improving, or developing a beneficiary management and data storage system for the MTSS to consolidate the existing temporary digital solution and consolidate its systems for recordkeeping, customer service, and beneficiary monitoring. This will finance the redesign of processes and support for the management of the shift to the new management system, which will feature the security measures and controls needed to protect sensitive beneficiary information and comply with national data protection laws.³⁰ A point system will be used to prioritize the distribution of transfers to the most

²⁹ The components are aligned with the following components of the prototype: (i) protection for the vulnerable population not on the rolls of transfer programs, working in the informal sector (number 3), through the implementation of an extraordinary cash transfer mechanism; and a cash for training subsidy; (ii) protection for the vulnerable population not on the rolls of transfer programs, working in the formal sector (number 4), through a cash transfer for those who have lost their jobs and those who have experienced a loss of all or part of their income; and a wage subsidy to maintain employment in the tourism sector.

³⁰ Both for this subcomponent and for subcomponent 2.2, ethical and security criteria will be used for data management.

vulnerable population, including women and people with disabilities (paragraph 1.13).

- 1.30 **Subcomponent 1.2. Training activities for job placement in the formal market (US\$10 million).** This subcomponent aims to strengthen and then expand the coverage of Empléate to facilitate a quick, efficient response to the period of economic recession, and will finance: (i) developing and implementing a communication and dissemination strategy with a differentiated approach; (ii) establishing regional committees for employer consultation; (iii) conducting surveys of labor-market pressure among a representative sample of regional employers; (iv) prioritizing and validating the program's training plans (fully or partially classroom-based and with a transversal skills module); (v) implementing a digital platform with data disaggregated by gender, race, ethnic group, nationality, and disability status that is interoperable with other databases to verify personal information and that includes parameterizable features to customize algorithms based on criteria for beneficiary prioritization and eligibility, as well as monitoring; (vi) developing and implementing a monitoring and evaluation system with results-based management; and (vii) providing training stipends to 4,300 informal or unemployed workers. These beneficiaries will be in addition to the 11,000 beneficiaries to be trained under the program in 2020, and those to be trained in 2021. These activities will not only provide a countercyclical instrument for the MTSS but will also strengthen the program, enabling it to better meet its objective of improving job placement for vulnerable populations in the medium term.
- 1.31 **Component 2. Protection for the vulnerable population not on the rolls of transfer programs, working in the formal sector (IDB Ordinary Capital: US\$183.4 million, IDB Grant Facility: US\$15.5 million).**
- 1.32 **Subcomponent 2.1. Protection for the unemployed, workers with total income reduction, workers with partial income reduction of 50% or less, workers with majority income reduction of more than 50%, and independent workers (US\$183.9 million).** This subcomponent is aimed at maintaining the minimum consumption level for these workers, and will finance cash transfers to: 77,000 unemployed; 33,000 workers with total income reduction; 44,000 workers with majority or partial income reduction; and 132,000 independent workers eligible to receive the Bono Proteger. This includes regular payments of ₡125,000 per month (US\$221) for all these groups, except for workers with partial income reduction of 50% or less, who will receive ₡62,500 per month (US\$110). A point system will be used to prioritize the distribution of transfers to the most vulnerable population, including women and persons with disabilities (paragraph 1.15).
- 1.33 **Subcomponent 2.2. Protection for formal workers in the tourism sector (US\$15 million).** This subcomponent aimed at preserving the level of formal jobs in this sector will finance wage subsidies for tourism companies, subject to maintenance of their employment levels. This subcomponent is estimated to protect at least 18,000 jobs ([optional link 7](#)). The characteristics of this subsidy are: (i) an average amount equivalent to between 30% and 50% of the company's gross payroll, paid during two or three months; (ii) subject to the number of jobs that the company commits to maintaining, taking as a benchmark the existing personnel prior to the program implementation date, to prevent companies from continuing to lay off workers and then applying for subsidies; and (iii) targeted to

companies with fewer than 100 employees, selected based on the ratio between the number of jobs that the company maintains and the total subsidy cost. Other targeting criteria will be geographic zone—to prioritize the areas most affected by the crisis and/or with the highest probability of leading the economic recovery—and level of vulnerability (for example, young people). This subcomponent will also finance the development or improvement of a digital tool for recordkeeping, identification, and payment of subsidies.

- 1.34 **Program administration (US\$1.5 million).** This includes expenses for the staff assigned to the program coordination unit (PCU) and basic equipment for its operation, as well as supervision, monitoring, evaluation, and audit costs.
- 1.35 **Beneficiaries.** The planned interventions for this program target people directly affected by the COVID-19 crisis, mainly due to the loss of income or employment, specifically 367,000 people receiving the Bono Proteger. The groups most vulnerable to the pandemic, including at least 30,000 immigrants, are prioritized. In addition, there are plans to facilitate job placement for 4,300 beneficiaries and to protect at least 18,000 formal workers in the tourism sector.

C. Key results indicators

- 1.36 **Expected outcomes.** The program seeks to contribute to maintaining the standard of living of those vulnerable to COVID-19, whose level of income and employment is affected, during the periods of social isolation and economic crisis. The main expected outcomes are to provide support through cash transfers to persons directly affected by the crisis who do not regularly receive support, but are vulnerable in the current context. The program also aims to protect a proportion of jobs in the tourism sector, as one of the sectors hardest hit by the crisis. Lastly, the program seeks to help place workers who are vulnerable to the COVID-19 crisis in jobs by providing relevant job training for the economy's recovery stage.
- 1.37 **Economic viability.** The proposed interventions will help maintain minimum levels of welfare for vulnerable persons and will help those who have lost their jobs or who work in the informal sector enter the job market during the recovery. It will also help drive the recovery process in the tourism sector, helping to ensure that the fewest possible number of formal jobs are lost during the crisis. Based on the foregoing, a cost-benefit analysis was conducted in which a net present value (NPV) of US\$38.36 million was estimated in the base case scenario,³¹ suggesting that the set of proposed actions are economically beneficial ([optional link 1](#)). The NPV corresponding to the unconditional transfers is US\$35.30 million, the NPV for the training activities is US\$206,000, and the NPV for the job protection in the tourism sector is US\$2.84 million. The sensitivity analysis yielded robust results.

³¹ The base case scenario uses a discount rate of 5%. The internal rate of return is 15.51%. With a discount rate of 12%, the NPV is US\$61.3 million. As discussed in [optional link 1](#), the discount rate of 5% is consistent with the recommendations of the National Institute for Health and Clinical Excellence, which suggests using values in the range of 1.5% to 3.5% in the analysis of social program benefits. See also the discussion in Dhaliwal et al. (2012), "Comparative Cost-Effectiveness Analysis to Inform Policy in Developing Countries," [link](#).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instruments

- 2.1 This operation is a specific investment loan with a total amount of US\$265 million, of which US\$245 million come from the Bank's Ordinary Capital (OC), and US\$20 million from the IDB Grant Facility (GRF) to support countries with large and sudden intraregional migration inflows. The disbursement period will be 24 months. The summary of the distribution of costs is as follows:

Table 1. Estimated program costs (US\$ millions)

Components	IDB	GRF ³²	Total	%
Component 1. Protection for the vulnerable population not on the rolls of transfer programs, working in the informal sector	60.1	4.5	64.6	24.4
Subcomponent 1.1. Protection for informal workers	50.1	4.5	54.6	20.6
Subcomponent 1.2. Training activities for job placement in the formal market	10.0	0.0	10.0	3.8
Component 2. Protection for the vulnerable population not on the rolls of transfer programs, working in the formal sector	183.4	15.5	198.9	75.1
Subcomponent 2.1. Protection for the unemployed, workers with total income reduction, workers with partial income reduction of 50% or less, workers with majority income reduction of more than 50%, and independent workers	168.4	15.5	183.9	69.4
Subcomponent 2.2. Protection of formal workers in the tourism sector	15.0	0.0	15.0	5.7
Administration or other contingencies	1.5	0.0	1.5	0.5
Total	245.0	20.0	265.0	100

Note: The amounts at the subcomponent level are indicative; the contract provides aggregate amounts.

- 2.2 Unprecedented migratory flows are the new challenge in Latin America and the Caribbean, with potential harmful effects for the host communities if not addressed properly. To address these exceptional circumstances, the Board of Governors of the IDB approved the use of up to US\$100 million from Ordinary Capital resources under the IDB Grant Facility to Support Countries With Large and Sudden Intraregional Migration Inflows (documents GN-2947-6 and AB-3199). The objective of this facility is to help countries design interventions that provide access to basic services, access to social services, and economic opportunities to migrants and their host communities, benefiting both migrants and the local population by favoring inclusive development and fostering positive relationships between these groups.

³² Resources from the IDB Grant Facility. In the event that it is not possible to use all of these resources in Bono Proteger transfers, they may be allocated to subcomponents benefitting the migrant population.

- 2.3 The program meets the five eligibility criteria for the use of grant facility resources ([optional link 6](#)). First, between 2017 and 2019, Costa Rica received a number of immigrants equivalent to 0.86% of its total population. Second, there is a historical, ongoing inflow of people who: (i) are mostly working age migrants (85%) who intend to stay, many with little education (93% with a secondary education or less) and living in vulnerable conditions (paragraph 1.5); (ii) are concentrated in economic sectors impacted by the crisis, such as services, commerce, and construction (paragraph 1.9); and (iii) have low income and less favorable working conditions. The program seeks to protect domestic and migrant vulnerable populations not on the rolls of transfer programs, working in both the formal and informal sectors. Third, since this operation will support the employment of vulnerable groups, it will foster a recovery and economic opportunities. Fourth, the operation defines targets to provide services to immigrants (paragraph 1.35) and defines targeting criteria to ensure that they are met (paragraphs 1.12 and 1.15). Fifth, the operation was requested on 3 April 2020 by Costa Rica's Ministry of Finance and is part of the IDB Group's immediate response to support countries affected by COVID-19.

B. Environmental and social risks

- 2.4 In accordance with Directive B.3 of the Bank's Environment and Safeguards Compliance Policy (Operational Policy OP-703), the program is classified as a Category "C" operation because its resources do not finance physical infrastructure or involve construction works or cause any physical modification to the environment. The program transfers redistribute resources to vulnerable families and support job placement activities, expanding eligibility to the population that does not currently benefit from social programs. Therefore, the operation is not expected to cause impacts or entail direct negative environmental and/or social risks, or such risks will be minimal and will not require mitigation measures.

C. Fiduciary risks

- 2.5 Most of the planned interventions have been assigned a medium level of execution risk. The following specific risks were identified: (i) the temporary grant of access to a company's digital platform, through which Bono Proteger payments are distributed, is a provisional solution that does not ensure the continuity of its operation and support to the executing agency. To mitigate this risk, the executing agency signed a one-year operation and maintenance agreement with that company; (ii) the verification for rendering of accounts will be complex due to the large number of transactions for Bono Proteger payments. To mitigate this risk, there are plans for Bank-eligible audit firms to prepare reasonable-assurance audits prior to reimbursement for the payments made or prior to the acknowledgement of the executing agency's justifications; and (iii) the executing agency's procurement and finance departments lack prior experience and capacity for program execution. To mitigate this risk, the personnel contracted will have procurement and financial management experience, and minimum procedures will be agreed upon to ensure effective program management.

D. Other key risks and issues

- 2.6 Two medium development risks were identified. First, the MTSS may lack sufficient technical capacity with respect to technology to ensure the fast, proper

development of the digital platforms planned for the Bono Proteger and the wage subsidy. This may delay planned disbursements and achievement of the program's expected outcomes. The following measures will mitigate this risk: (i) contracting a technology consultant using grant funding; and (ii) contracting a technology and information systems consultant with program resources, who will become part of the PCU. Second, there is a risk that the Empléate program will lack information necessary to ensure that the training offered addresses the productive sector's needs, particularly outside the metropolitan area, which may impact achievement of the program's expected outcomes. To mitigate this risk, there are plans to implement an outreach campaign for employers and job seekers, a quick company survey, and provincial employer committees to reinforce the program's ability to determine in-demand skills more accurately. In addition, technical assistance will be provided to guide the implementation of these elements and to include monitoring and evaluation mechanisms to assess program effectiveness.

- 2.7 **Sustainability.** The program is considered sustainable since it is financing specific Bono Proteger transfers. In addition, by improving the Empléate program and developing a wage subsidy program, the country will have countercyclical labor policies not only to mitigate the effects of the crisis on employment and income during the economic crisis period (after social isolation), but also to be better equipped to respond in a comprehensive, dynamic manner to similar situations in the future. This operation supports the efforts of Costa Rica to respond to the pandemic and mitigate the economic impacts on the most vulnerable groups. The loan represents a fraction of the financial and social effort being made by the country, which is determined to assume economic costs to save lives, as well as advance an inclusive recovery once the emergency has been contained. In addition, the Bank will provide technical assistance to make improvements to recordkeeping and tracking systems for transfers and subsidies, and to enhance the Empléate program—building the capacity of the MTSS to serve vulnerable workers, both during the crisis and in the medium term.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

- 3.1 **Borrower and executing agency.** The borrower will be the Republic of Costa Rica. The executing agency will be the Ministry of Labor and Social Security (MTSS), supported by its National Employment Bureau (DNE) and other units of the MTSS. A program coordination unit (PCU) led by a general coordinator with managerial experience will be established in this bureau with program resources. For efficient program implementation, the executing agency may develop coordination and support mechanisms with other institutions or entities that may contribute to program execution.
- 3.2 **Execution and administration.** In addition to a general coordinator, the PCU will have the personnel required for program execution, which may include ([optional link 10](#)): (i) a planning, monitoring, and evaluation specialist; (ii) two financial specialists; (iii) one procurement specialist (iv) a specialist in job training and intermediation; (v) a specialist in user service and data management systems; and (vi) a technology systems specialist.

- 3.3 **Special contractual conditions precedent to the first disbursement of the loan proceeds:** The PCU is important for program execution, as it will be responsible for program execution. In this regard the following conditions have been considered: (i) key staff will have been selected (financial management specialist and procurement specialist) to take responsibility for program execution within the PCU; and (ii) the program auditor will have been selected, based on terms of reference previously agreed upon with the Bank. According to the institutional capacity assessment of the executing agency, which identified the need to strengthen the areas of procurement and financial management, this staff is key for the Bank to be able to efficiently recognize eligible expenditures incurred prior to program approval (retroactive financing) and prior to the program's eligibility date. During program execution, the remaining staff of the PCU will also be contracted (paragraph 3.2), but this contracting will not be a condition precedent to the first disbursement. The financing of the contracting of this staff has been considered in the PCU's operating budget (paragraph 1.34).
- 3.4 **Retroactive financing.** The Bank may retroactively finance eligible expenditures made by the borrower prior to the loan approval date to finance Bono Proteger transfers (subcomponents 1.1 and 2.1) for up to the amount of US\$172 million (65% of program amount), provided that requirements substantially similar to those established in the loan contract were met. This is equivalent to the amount that the Costa Rican government will pay to make approximately 835,000 Bono Proteger transfers. These transfers will be paid monthly for three months. As of 12 May, a total of 737,000 requests had been received and 414,000 transfers had been made. The MTSS estimates that by the end of the month, 740,000 transfers will have been made. These expenditures must have been incurred on or after 16 March 2020 when the Government of Costa Rica declared a state of national emergency due to COVID-19 (Executive Decree 42227-MP-S). Even though this predates the program officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as of that date, given the exceptional circumstances surrounding the global health emergency.
- 3.5 **Procurement.** Procurement financed in whole or in part with Bank funds will be conducted in accordance with the Policies for the Procurement of Goods and Works Financed by the Inter-American Development Bank (document GN-2349-15) and the Policies for the Selection and Contracting of Consultants Financed by the Inter-American Development Bank (document GN-2350-15) or the policies in effect at the time of execution, and with the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) ([required link 2](#)). Annex III considers the possibility of direct contracting if this is in the interest of the program. Given the health emergency and its economic impacts, it is necessary to take actions such as the development or improvement of information technology platforms and/or contracting with specialized public or private entities with experience of exceptional value as quickly as possible where it is not practical to conduct a new competitive process. This has been considered for the development and/or improvement of the information technology platforms for Bono Proteger and the wage subsidy program, as well as information storage and internet connectivity services for the operation of the IT platforms.

- 3.6 **Disbursements.** Disbursements will be made using the methods of reimbursement of expenses incurred and advances of funds in accordance with the provisions of the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). At the start of execution, the executing agency will submit a financial plan indicating liquidity needs for a period of up to six months, indicating the amount to be reimbursed, as well as the amount of the advance for the period. Subsequent requests for advances of funds will be based on a financial plan and detailed cash flow, for a period of up to six months. A level of 60% of the cumulative balance of advances pending justification must be accounted for. This level is established considering that justifications of expenses incurred for advances of funds granted must be accompanied by a reasonable assurance report issued by an auditor, entailing an additional period for its submission to the Bank. The GRF resources and the loan proceeds will be disbursed *pari passu*, proportionally and simultaneously.³³
- 3.7 **Audit.** The disbursement requests or justifications of expenditures that the executing agency submits to the Bank will be accompanied by a reasonable assurance report. Within 120 days following the date of the last program disbursement, or other date agreed upon by the parties, the executing agency will submit an audited final financial report, consolidating the investments made in the program; this audited final financial report will be made public, in accordance with the Bank's access to information policies. The assurance reports, as well as the final audit, will be completed by a Bank-eligible independent audit firm or by the supreme audit institution: Office of the Comptroller General. The determination of the scope and other associated considerations will be governed by the Financial Management Guidelines for IDB-financed Projects (document OP-273-12) and the Guide for Financial Reports and Management of External Audit. Audit costs will be financed with program resources.

B. Summary of arrangements for monitoring results

- 3.8 **Monitoring.** The executing agency will be responsible for implementing the monitoring and evaluation plan ([required link 1](#)). In light of the crisis, the main monitoring tools for this program will be the results matrix and the procurement plan. The main source for monitoring the impact, outcome, and output indicators will be the administrative records of SICERE, household surveys, and the monitoring systems of the cash transfer, wage subsidy, and Empléate programs. The executing agency will prepare multiyear and annual execution plans once the emergency situation has stabilized. The main reporting tool will be the progress monitoring report (PMR), which will use the program's annual and semiannual reports as its main sources of information.
- 3.9 **Evaluation.** Given the nature of this operation, the evaluation will address the program's contribution to the specific objective of supporting the minimum levels of income and the levels of employment of persons affected by the coronavirus crisis, in the immediate period and during the recovery. Wherever feasible, the evaluation will also evaluate the program's contribution to the ultimate objectives of ensuring a

³³ According to document AB-3199.

minimum quality of life for vulnerable persons in light of the crisis caused by COVID-19 and its economic repercussions. To that end, a “before and after” analysis will be conducted, using information from available time series on the results indicators. For the purpose of attributing the observed results to the program intervention, the quantitative analysis will be supplemented with a review of the theory of change supported by relevant evidence of the effectiveness of similar interventions in comparable contexts. An experimental impact assessment is also proposed, which would enable the identification of the causal effect of the Empléate program on the employment outcomes of the vulnerable workers.

Development Effectiveness Matrix		
Summary		CR-L1144
I. Corporate and Country Priorities		
1. IDB Group Strategic Priorities and CRF Indicators		
Development Challenges & Cross-cutting Themes	-Social Inclusion and Equality -Productivity and Innovation -Gender Equality and Diversity	
CRF Level 2 Indicators: IDB Group Contributions to Development Results	-Students benefited by education projects (#) -Beneficiaries of targeted anti-poverty programs (#) -Beneficiaries of initiatives that support migrants and their host communities (#) -Beneficiaries of employment support initiatives (#) -Jobs supported (#)	
2. Country Development Objectives		
Country Strategy Results Matrix		
Country Program Results Matrix		The intervention is not included in the 2020 Operational Program.
Relevance of this project to country development challenges (If not aligned to country strategy or country program)		See paragraph 1.19.
II. Development Outcomes - Evaluability		Evaluable
3. Evidence-based Assessment & Solution		9.4
3.1 Program Diagnosis		3.0
3.2 Proposed Interventions or Solutions		4.0
3.3 Results Matrix Quality		2.4
4. Ex ante Economic Analysis		10.0
4.1 Program has an ERR/NPV, or key outcomes identified for CEA		3.0
4.2 Identified and Quantified Benefits and Costs		3.0
4.3 Reasonable Assumptions		1.0
4.4 Sensitivity Analysis		2.0
4.5 Consistency with results matrix		1.0
5. Monitoring and Evaluation		7.5
5.1 Monitoring Mechanisms		1.8
5.2 Evaluation Plan		5.7
III. Risks & Mitigation Monitoring Matrix		
Overall risks rate = magnitude of risks*likelihood		Low
Identified risks have been rated for magnitude and likelihood		
Mitigation measures have been identified for major risks		
Mitigation measures have indicators for tracking their implementation		
Environmental & social risk classification		C
IV. IDB's Role - Additionality		
The project relies on the use of country systems		
Fiduciary (VPC/FMP Criteria)	Yes	Financial Management: Budget, Treasury, Accounting and Reporting, External Control. Procurement: Information System.
Non-Fiduciary		
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:		
Additional (to project preparation) technical assistance was provided to the public sector entity prior to approval to increase the likelihood of success of the project		

Note: (*) Indicates contribution to the corresponding CRF's Country Development Results Indicator.

Evaluability Assessment Note:

Operation CR-L1144, for an amount of 265,000,000, is part of the Bank's operational response to the COVID-19 Pandemic called "Apoyo a Poblaciones Vulnerables Afectadas por Coronavirus". The general development objective of this project is to contribute to ensuring minimum levels of quality of life for vulnerable people in the face of the crisis caused by COVID-19. The specific objective is to support the minimum levels of income and employment of the national and migrant population affected by the CV, in the immediate period and during recovery.

The loan proposal presents a solid diagnosis of the problem, as well as a review of international evidence. The proposed solutions are appropriate to respond to the identified problems and their contributing factors. The results matrix is consistent with the vertical logic of the project, presenting adequate indicators at the level of results and impacts. The result indicators are appropriately defined to measure the achievements of the program and the fulfillment of its specific objectives. The impact indicators reflect the contribution to the economic objectives of the operation by quantifying the scope of the proposed goals for the transfer programs that the Costa Rican government plans to carry out to alleviate the impact of COVID-19.

The economic evaluation shows that the operation is efficient with a benefit / cost ratio greater than 1.10 (with a discount rate of 5%) and an NPV of USD38,402,631. In a context of high uncertainty, the analysis considers the benefits in employment and labor income derived from the reduction of mortality and morbidity rates from COVID-19, while the costs are those associated with the implementation of a proposed standard intervention package, by WHO.

The monitoring and evaluation plan proposes to carry out a reflective analysis of the outcome and impact indicators included in the result matrix, complemented by a review of the theory of change, updated review of international evidence and qualitative studies. In addition, for the outcome indicators with data that are recorded on a regular basis, an experimental impact evaluation of the Empléate job training program will be implemented. Monitoring and evaluation activities will be carried out by the Ministry of Labor and Social Security in conjunction with the Bank.

INDICATIVE RESULTS MATRIX

Project objective:	The general development objective of this program is to contribute to ensuring minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19. The specific objective is to support the minimum levels of income and employment of the national and migrant population affected by coronavirus in the immediate period and during the recovery.
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EXPECTED IMPACT

Indicator ¹	Unit of measure	Baseline ²	Baseline year	Final target	Means of verification	Comments
General development objective: To contribute to ensuring minimum levels of quality of life for vulnerable persons amid the crisis caused by COVID-19						
1. Consumption level of vulnerable families compared to that of nonvulnerable families six months after the onset of the crisis	Percentage	68%	2018	68%	Calculated based on the Costa Rican National Household Income and Expenditure Survey (ENIGH)	Numerator: average consumption of households in which at least one member meets the Bono Proteger eligibility criteria, identifiable in the ENIGH Denominator: average consumption of households whose members do not meet the Bono Proteger eligibility criteria, identifiable in the ENIGH Data source: ENIGH.
2. Projected total employment in December 2021 at formal tourism sector enterprises supported by the IDB program compared with total employment at those enterprises in December 2019.	Ratio	0.48	2020	0.56	Calculated using administrative records from the Social Security Fund and IDB program monitoring reports	The baseline indicator is the ratio of the projected number of employees in December 2021 in the scenario without the program (101,280 jobs) compared to employment in December 2019 (211,000 jobs). The final target is the ratio of the projected number of employees in December 2021 in the scenario with the IDB program (119,280 jobs) compared to employment in December 2019 (211,000 jobs). ³

¹ In this document, the "IDB program" is project CR-L1144.

² In this document, the baseline is zero when the intervention did not exist in the baseline year (i.e., the Bono Proteger cash transfer program, the wage subsidy program for companies in the tourism sector) or, in the case of programs that did exist, when the eligibility criteria were not tied to the impact of COVID-19 (i.e., Empléate job training program).

³ Estimated employment rates are taken from F. Naranjo (2020): "Sector Turismo y Perspectivas Inmediatas: Impacto del COVID-19," CEFSA, presentation. Projected employment rates for December 2021 without the program (101,280 jobs) and with the program (119,280 jobs) are estimated using projected employment rates for December 2020 from that document (Naranjo, 2020).

EXPECTED OUTCOMES

Indicator	Unit of measure	Baseline	Baseline year	2020	2021	2022	Final target	Means of verification	Comments
Specific development objective. The specific objective is to support minimum income and employment levels for those affected by the coronavirus in the immediate period and during the recovery									
1. Workers who receive extraordinary transfers under the strategy for responding to the impact of COVID-19 who were not participating in transfer programs but were listed in information systems	Percentage	0	2020	66%	-	-	66%	Records of extraordinary transfers paid to the target population, Bono Proteger	Numerator: number of workers who receive Bono Proteger transfers Denominator: total number of workers eligible to receive Bono Proteger transfers. To estimate the number of people who are eligible for Bono Proteger transfers, the 2018 ENIGH was used. ⁴
2. Projected total employment in December 2020 at formal tourism sector enterprises supported by the IDB program compared with total employment at those enterprises in March 2020	Ratio	1.60	2020	1.88	-	-	1.88	Records of subsidies to tourism sector enterprises and Social Security Fund	The baseline indicator is the ratio of the projected number of employees in December 2020 in the scenario without the program (101,280 jobs) compared to employment in March 2020 (63,300 jobs). The final target is the ratio of the projected number of employees in December 2020 in the scenario with the program (119,280 jobs) compared to employment in March 2020 (63,300 jobs) ⁵ .
3. People who lost their jobs since March 2020 who receive relevant job training services and who found formal employment within nine months of applying to the training program	Percentage	0	2020	-	23%	25%	25%	Administrative records from the Empléate program and the Social Security Fund	Numerator: number of persons who lost their jobs since March 2020 who received relevant job training (Empléate program) and found new jobs. Denominator: number of persons who lost their jobs since March 2020 and received job training (Empléate program).

⁴ Applying the Bono Proteger eligibility criteria, it was determined that those surveyed by the 2018 ENIGH are eligible if: they are over the age of 15; they are not public sector employees; they are not receiving a pension under any pension system; they belong to a family that does not receive other cash transfers from the State; and they do not have a job that pays 100% of the daily wage or have had their work hours reduced.

⁵ Estimated employment rates are taken from F. Naranjo (2020): "Sector Turismo y Perspectivas Inmediatas: Impacto del COVID-19," CEFSa, presentation.

OUTPUTS

Output	Unit of measure	Baseline	Baseline year	2020	2021	2022	Final target	Means of verification	Comments
Component 1: Protection for the vulnerable population not on the rolls of transfer programs, working in the informal sector									
1. Workers who receive extraordinary transfers but were not listed in any transfer programs' beneficiary rolls or information systems	Persons	0	2020	80,840	0	0	80,840	Records of extraordinary transfers paid to the target population, Bono Proteger	
2. Those who receive transfers provided that they enroll in job training courses	Persons	0	2020	314	3,500	500	4,314	Administrative records from the Empléate program and the Social Security Fund	
Component 2: Protection for the vulnerable population not on the rolls of transfer programs, working in the formal sector									
1. Workers who receive extraordinary transfers but were not listed in any transfer programs' beneficiary rolls or information systems	Persons	0	2020	286,617	0	0	286,617	Records of extraordinary transfers paid to the target population, Bono Proteger	
2. Unemployed population that receives wage subsidies six months after the start of the IDB program	Persons	0	2020	18,000	0	0	18,000	Records of subsidies to tourism sector enterprises and Social Security Fund	

Country: Costa Rica **Sector:** LMK

Project number: CR-L1144

Year: 2020

Cofinancing: Not applicable

Co-execution: Not applicable

Fiduciary Agreements and Requirement

Executing agency: Ministry of Labor and Social Security (MTSS)

Project name: Program to Protect the Jobs and Income of Vulnerable Populations Affected by Coronavirus in Costa Rica

I. Fiduciary Context of the Executing Agency

1. Use of country systems in program¹

<u>Budget</u> <input checked="" type="checkbox"/>	<u>Reports</u> <input type="checkbox"/>	<u>Information system</u> <input checked="" type="checkbox"/>	<u>NCB</u> <input type="checkbox"/>
<u>Treasury</u> <input checked="" type="checkbox"/>	<u>Internal audit</u> <input type="checkbox"/>	<u>Shopping</u> <input type="checkbox"/>	<u>Advanced NCB</u> <input type="checkbox"/>
<u>Accounting</u> <input checked="" type="checkbox"/>	<u>External control</u> <input checked="" type="checkbox"/>	<u>Individual consultants</u> <input type="checkbox"/>	<u>Consulting firm</u> <input type="checkbox"/>

Applicable laws/regulations:

Financial Management Act of the Republic and Public Budgets of Costa Rica (Law 8131); Law Establishing the Office of the Comptroller General of the Republic (Law 7428); operating regulations for the General Government Fund (Executive Decree 33950-H); Administrative Contracting Act (Law 7494) and its implementing regulations (Decree 33411); National Risk Prevention and Emergency Response Act (Law 8488); Authorization to Reduce Working Hours in Relation to the National Emergency Declaration (Law 9832); and COVID-19 National State of Emergency Declaration for Costa Rica (Executive Decree 42227-MP-S).

2. Fiduciary capacity of the executing agency

The Institutional Capacity Assessment Platform (ICAP)² was used to evaluate the MTSS, showing that it has medium capacity to administer the program's resources. The executing agency lacks experience executing IDB-financed projects. However, to execute the transfer component associated with Bono Proteger, which represents nearly 90% of the loan proceeds, the MTSS will rely on its administrative and financial structure—which will be strengthened through a program coordination unit (PCU) that includes financial and procurement specialists, to ensure effective financial management.

3. Fiduciary risks and mitigation measures

Fiduciary risk: High ☐; Medium ☒; Low ☐

¹ Any system or subsystem subsequently approved may be applicable to the operation, in accordance with the terms of the Bank's validation thereof.

² The capacity assessment was based on a simplified version of the ICAP tool, evaluating the areas of project leadership, financial management, and procurement management (available at EZSHARE-582686500-1).

Risk	Risk level	Mitigation plan
The temporary grant of access to a company's digital platform, through which Bono Proteger payments are distributed, is a provisional solution that does not ensure the continuity of the platform's operation and support to the executing agency.	Medium	The executing agency signed a one-year operation and maintenance agreement with the company that provided the platform.
The verification for rendering of accounts will be complex due to the large number of transactions for Bono Proteger payments.	Medium	Reasonable-assurance audits will be prepared by Bank-eligible audit firms prior to reimbursement of the payments made or to the acknowledgement of the executing agency's justifications.
Lack of prior experience executing Bank loans in the procurement and finance departments, as well as difficulties interpreting and applying internal MTSS rules and procedures on procurement for the timely provision of necessary services and consulting assignments.	Medium	Execute an agreement with the MTSS and the departments involved on the minimum necessary procedures applicable to the program and its resources, and strengthen the MTSS team (procurement and finance) with personnel experienced in procurement and financial management, who will be part of the executing agency's PCU.

II. Considerations for the Special Provisions of the Contract

<p>Conditions precedent to the first disbursement: The executing agency will have selected and obtained the Bank's no objection to contract the financial management specialist, the procurement specialist, and the program auditor. Given the planned retroactive financing amounts, operating implications, and subsidy monitoring and rendering of accounts, as well as the short execution period and urgency to have these positions filled, this contracting is essential. The Bank will provide advisory support to the executing agency to streamline the recruitment process for the financial management specialist, the procurement specialist, and the auditor.</p>
<p>Exchange rate: For purposes of accountability, the exchange rate used will be that prevailing on the effective date on which the borrower, executing agency, or any other individual or entity to which the power to incur expenses has been delegated, makes the respective payments or transfers.</p>
<p>Audited financial reports on the program: The disbursement requests and justification of expenses that the executing agency submits to the Bank will be accompanied by a reasonable-assurance report. Within 120 days following the last program disbursement or another date agreed upon by the parties, the executing agency will submit a final financial audit report that consolidates all the investments made under the program. This final financial audit will be made public pursuant to the Bank's Access to Information Policy.</p> <p>The report will be prepared by an audit firm acceptable to the Bank or by the Office of the Comptroller General of the Republic (CGR).</p>
<p>Other: Not applicable.</p>

III. Agreements and Requirements for Procurement Execution

Exceptions to policies and guidelines

No exceptions to Bank policies are anticipated. Special measures of a temporary nature regarding procurement policies, which were approved by the Board of Executive Directors and included in document GN-2996, paragraph 4.2, and in Resolution DE-28/20, paragraph 2, as indicated below, may be applied.

- That goods originating from non-member countries of the Bank be eligible for procurement and suppliers, contractors, consultants, and service providers from non-member countries of the Bank be allowed to participate in the procurement processes.
- That the procurement policies of procurement agents and specialized agencies may be used when contracted as such by the borrower, or by the executing agency, as applicable.
- That the international consolidated contracting and procurement through the adherence to existing contracts of the borrower may be used as procurement methods in addition to those described in the procurement policies.
- Acceptance, when compatible with Bank policies, of the use of the Administrative Contracting Act and its implementing regulations for emergency situations, as well as the resolutions, recommendations, and provisions issued because of the COVID-19 health emergency by the Costa Rican government. Contracts for goods, works, consulting services and other related services, and other contracts financed with Bank resources, will include the Bank's prohibited practices clauses.

Retroactive financing and/or advance procurement³	<p>The Bank may retroactively finance up to 65% of the loan amount in eligible expenditures incurred by the borrower prior to the loan approval date for subsidies planned for the Bono Proteger program and the contracting for the operation of the technology platform and the program's management team, provided that requirements substantially similar to those established in the loan contract were met. Such expenditures must have been made on or after 16 March 2020 when the Government of Costa Rica declared a state of national emergency due to COVID-19. Even though this predates the program officially entering the pipeline (document GN-2259-1), authorization of the retroactive financing on an exceptional basis is justified as of that date, given the exceptional circumstances surrounding the global health emergency.</p> <p>The retroactive financing percentage is justified because: (i) the country needs a flow of funds to be able to quickly mitigate the effects of the crisis on employment and income; (ii) the program is part of a broader program, Plan Proteger, which accounts for more than 3% of Costa Rica's GDP; and (iii) once the program is approved, it is estimated that the government will have already disbursed a large portion of the planned resources for Bono Proteger.</p>
Expenditures incurred before the amendatory contract entered into effect	<ul style="list-style-type: none"> • Not applicable.
Additional procurement support	<ul style="list-style-type: none"> • Not applicable.
Alternative procurement arrangements	<ul style="list-style-type: none"> • Not applicable.
Projects with financial intermediaries	<ul style="list-style-type: none"> • Not applicable.

³ Pursuant to the Policy on Recognition of Expenditures, Retroactive Financing, and Advance Procurement (document GN-2259-1) or the equivalent policy in effect at the time of the operation.

Procurement agents	<ul style="list-style-type: none"> Not applicable.
Direct contracting	<ul style="list-style-type: none"> Potential direct contracting is authorized if suitable for the program. Given the health emergency and its economic impacts, it is necessary to quickly perform activities such as developing or improving technology platforms and data storage, through agreements and/or contracts with specialized public or private entities with value-added experience. <ol style="list-style-type: none"> 1. Development and/or improvement of technology platforms for vouchers, subsidies, and transfers: US\$1,185,000, potentially the company CONTINUUM DATA CENTER S.A. (Costa Rica), for a period of up to three months. 2. Data storage services and internet connections to operate technology platforms: US\$285,000, potentially ICE, for a period of up to 12 months.

Operating expenses: <input checked="" type="checkbox"/> <i>Operation of the PCU (personnel and equipment); program audit and evaluation.</i>	Domestic Preference: <input type="checkbox"/> <i>Not applicable</i>
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General project procurement supervision method: Not applicable; 98% of loan resources will be used for Bono Proteger, subsidies, and transfers to protect vulnerable populations.	
Supervision method: Ex ante	For: Pursuant to what was agreed upon in the program procurement plan.

Country thresholds: www.iadb.org/procurement

IV. Financial Management Agreements and Requirements

Programming and budget	<ul style="list-style-type: none"> The MTSS will be responsible for preparing the budget in coordination with the Ministry of Finance and will undertake all procedures to ensure that the resources needed for program execution are allocated in the national budget.
Treasury and disbursement management	<ul style="list-style-type: none"> Disbursement methods: Disbursements will take place through reimbursement of payments made and advances of funds. Payment reimbursements and justifications of advances will be processed after a reasonable-assurance report is submitted, prepared by an audit firm acceptable to the Bank or by the CGR. Submission of disbursement requests: Disbursement requests and justifications of advances will be submitted preferably through Bank-authorized electronic disbursement systems. If these systems are not available or the executing agency has technical issues at the time of request submission, printed requests may be presented as an exception. Bank accounts: To administer the cash from loan proceeds, the principle of a general fund for the National Treasury will be followed, since these are public revenues received by the Costa Rican government. The executing agency, in coordination with the Ministry of Finance, will provide a bank account for disbursement of loan proceeds.

	<ul style="list-style-type: none"> Financial plan: At the start of program execution, the executing agency will submit a financial plan with the liquidity needs for up to six months, indicating the amount to be reimbursed and the advance amount for the period. Subsequent requests for advances of funds will be based on a financial plan and a detailed cash flow for a period of up to six months. Percentage for accountability: 60% of the cumulative balance of advances pending justification. The accountability level takes into account that justification of expenses for the advances of funds provided need to be accompanied by a reasonable-assurance report prepared by an auditor, and additional time will be needed to submit this to the Bank. Program resource flow: The Bank will make disbursements through transfers to the Central Bank of Costa Rica, where resources for the General Government Fund are held. The executing agency is responsible for managing these resources through an online or registered account opened specifically to manage program resources.
Accounting, information systems, and reporting	<ul style="list-style-type: none"> Specific accounting standards: The current regulations issued by the lead agency, the National Accounting Bureau, will be followed. The government is working to implement International Public Sector Accounting Standards (IPSAS), pursuant to current legislation.⁴ The program's financial reports will be based on the Financial Management Guidelines for IDB-financed Projects (document OP-273-12). Accountability reporting: Reimbursement requests and justifications of advances using the Bank's formats, accompanied by a reasonable-assurance report prepared by an audit firm acceptable to the Bank or by the CGR. Upon completion of the operation, a statement of cumulative investments, and cash flow and disbursement statements, all duly audited. To prepare all reports, program execution information entered by the executing agency into the Integrated Financial Management System (SIGAF) will be used. Accounting method and currency: Financial reports will be prepared on a cash accounting basis in U.S. dollars.
External control	<ul style="list-style-type: none"> With the agreement of the Bank, the borrower and the executing agency will select and contract the services of an eligible auditor, or will use the services of the CGR, in accordance with the terms of reference agreed beforehand with the Bank.
Project financial supervision	<ul style="list-style-type: none"> Financial supervision will be conducted by means of visits, working meetings, and reviewing reports including the audited financial reports.

V. Relevant Information for the Operation

Policies and guidelines applicable to the operation

Financial Management	Procurement
<ul style="list-style-type: none"> Document GN-2811 (OP-273-12) 	<ul style="list-style-type: none"> Document <u>GN-2349-15</u> Document <u>GN-2350-15</u> <u>Simplification of IDB Group procurement processes in response to COVID-19</u> https://www.iadb.org/en/coronavirus/fiduciary-response

⁴ Law 9635 to Strengthen Public Finances of 4 December 2018 calls for adoption of IPSAS in 2022.

Records and files

The executing agency will have separate digital and physical files, as well as procedures and instructions allowing appropriate recordkeeping and filing.