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PROGRAMME PLANNING

Country and intercountry programmes and projects

FOURTH COUNTRY PROGRAMME FOR COSTA RICA*

<u>Programme period</u>	<u>Actual resources programmed</u>	\$
1987-1991	IPF for 1987-1991	4 571 000
	Third cycle balance	11 000
	Other resources programmed	<u>5 065 800</u>
	Total	9 647 800

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* Detailed listings of projects and other related data prepared as part of the country programming exercise are available on request. These listings include (a) ongoing projects; (b) proposed projects; (c) distribution of resources by objective; (d) planned activities of operational funds and programmes under the authority of the Administrator; (e) distribution of new country programme by sector.

I. DEVELOPMENT TRENDS, STRATEGIES AND PRIORITIES

A. Current economic trends

1. In the period 1980-1982, Costa Rica's economy was hit by the most serious economic and social crisis ever faced by the country since reliable statistics have been available. The main economic and social indicators were down sharply. Real output fell by nearly 10 per cent; the rate of inflation rose to over 80 per cent; the underemployment rate reached nearly 22 per cent; average real wages fell by 36 per cent. The financial imbalance reached considerable proportions. The fiscal deficit amounted to 14.3 per cent of the gross domestic product (GDP) in 1981, prompting the State to become involved on a very large scale in financing the national banking system, and this fed the inflationary spiral and the balance-of-payments deficit. The external debt increased rapidly completely out of proportion to the country's productive capacity and its prospects for growth in the medium term. The external debt surpassed the GDP and servicing of the debt rose to more than 50 per cent of earnings from the export of goods and services.

2. There was a marked decline in the standard of living of the inhabitants during the period. In addition to the fall in real wages and growing unemployment there was a weakening of public agencies in the social field. As far as health and nutrition were concerned, the historically high levels achieved by the country were seriously threatened. Public resources for public housing fell significantly in real terms, at the same time that inflation and unemployment were placing home ownership out of the reach of a high proportion of the population. In education, the need to supplement family income resulted in an increase in the number of school drop-outs and in the interruption of studies of the low-income population.

3. In order to overcome the acute crisis, a progressive Economic Stabilization Plan was initiated in 1982. In order to correct the fiscal imbalance, the tax burden was increased through direct and indirect taxation, prices and rates for public goods and services were adjusted, and fiscal discipline was established, which reduced the growth of public spending in real terms. At the same time, negotiations were initiated with external creditor banks and interest payments on the debt were resumed. This enabled the country to receive new financing which will support the process of economic stabilization. In addition, the exchange market was reorganized and streamlined. The exchange banks were eliminated and full control over foreign exchange was entrusted to the Central Bank, initiating a process of revaluation of the free rate of exchange, which was unified with the interbank exchange rate at 43.65 colones to the dollar at the end of 1983 (in July 1982 it had reached 65 colones to the dollar). The stabilization programme resulted in some economic restrictions for the inhabitants, but inflationary expectations and uncontrolled devaluation were avoided.

4. In the period 1983-1985, production rebounded considerably, while progress was made in controlling inflation, restoring real wages to previous levels and reducing unemployment, without placing too much strain on the balance of payments. In addition, the decline of basic services was halted and the country's substantial social achievements were preserved while improving social security and expanding its coverage, and providing access to housing for a significant number of families.

5. These positive developments notwithstanding, economic stability, which is needed for a sustained recovery, is still fragile. The external grip on the country is extremely serious. Hence the timely renegotiation of the servicing on the external debt and an increase in national saving are of strategic importance in adjusting and restructuring the economy and achieving genuine recovery in the coming years.

B. National development strategies

6. The challenges facing Costa Rica in the future are many and varied. It is necessary to consolidate economic stability and promote important changes that will make for sustained growth.

7. The development strategy identifies as priority areas the promotion of exports, economic democratization, modernization of the production apparatus and streamlining of the public sector. The central focus of the strategy will be the growth and diversification of exports as the driving force for economic development. While steps are taken in that direction, attempts will be made to channel new investments towards the production of non-traditional goods, for both the domestic market (replacing imported raw materials and intermediate goods which compete) and the external market.

8. Exports will become the driving force of the growth process rather than just a source of foreign exchange. The system of incentives should promote vertical expansion of the production system and economic democratization. Non-traditional exports will have to be based on the increased efficiency of the economy as a whole. In the medium term, it is neither possible nor desirable to achieve growth merely on the basis of indiscriminate transfers whether direct or indirect, to the export sector, or on the basis of low wages enabling Costa Rica to compete with exports from the poorest countries of the region. Efficiency, productivity, high living standards and balanced development must be the criteria for evaluating the benefits of increasing exports.

9. Modernization of the production apparatus requires the development of mining, fisheries, forestry and livestock production; reconversion of industry and its integration with agriculture; broadening of the basic infrastructure; the creation of more opportunities for tourism, and the integrated development of specific zones and regions. New investments could be financed from greater national saving, both public and private, foreign investments and the repatriation of capital. The aim is to develop specific programmes in these fields. A programme of primary importance in this entire process is technological development. Greater efficiency in production requires the increased use of science and technology and their management and administration at every stage of the production process. The identification of basic sources in order to provide the country with a scientific and technological infrastructure is a task to which high priority is given.

10. Streamlining of the public sector is regarded as an important component in the process of structural transformation. In the past, the public sector had relatively more resources at its disposal and the emphasis of its activities was on

effectiveness. Today, the emphasis must be placed on efficiency and the use of scarce resources. The new development approach is not to seek a reduction per se in the size of the public sector. What is required is to transform that sector so that it can meet the new social and economic challenges.

11. Economic democratization, in addition to strengthening small ownership and social ownership by promoting co-operatives and other forms of solidarity, involves the decentralization of production activities towards the outlying parts of the country. The development of exports, the modernization of the production apparatus, a new scientific and technological approach and activities aimed at streamlining the State will have to be consistent with bringing the benefits of development to new social groups and new geographical areas. On the other hand, all policies aimed at increasing national saving will have to be compatible with the objectives of economic democratization pursued by the Government.

12. Transformation of the production apparatus makes sense since it leads to improved social conditions for the inhabitants, together with better distribution of income and wealth, thus improving significantly the quality of life of Costa Ricans. To achieve those goals, efforts will be made to provide workers greater access to property and work, and to channel public spending towards improving the quality of life, with emphasis on specific groups such as women, landless peasants, slum dwellers and the unemployed. In addition, policies will have to be promoted to improve and modernize basic services in such fields as education, health, nutrition and social security. Housing will be given preferential treatment. In this area, the Government's target is to meet the demand for 80,000 housing units between 1986 and 1990, and a special appropriation of public resources will have to be made for that purpose.

C. Technical co-operation priorities

13. The programme of technical co-operation submitted by the Ministry of National Planning and Economic Policy is based on the development objectives established by the Government and is fully in line with the features of the National Development Plan 1986-1990. The process of designing and formulating the new programme was an opportunity for an active technical and institutional dialogue between the Ministry of National Planning and Economic Policy and UNDP in which officials from the Ministry, a national consultant hired specifically for that purpose and staff of the UNDP office in Costa Rica took part. The objectives of the programme of technical co-operation which has been submitted are the following:

(a) To help improve the machinery and procedures for decision-making by the Government. In this area, an attempt will be made to improve the governmental decision-making process by establishing machinery for information and co-ordination that will permit the timely collaboration between national and foreign advisers and consultants;

(b) To support the process of economic democratization and social consolidation. The Government feels that the problems in this area are of a very

specific nature. Neglected areas have been identified and that is where technical co-operation activity will be concentrated;

(c) To promote the process of economic restructuring. In this area, the Government intends to use technical co-operation resources to ensure that the new economic structure is based on the efficiency and productivity of the factors of production;

(d) To help strengthen the national identity. The country's democratic system and commitment to peace are the product of a set of historical traditions which for many years have shaped the Costa Rican national character. Costa Rica intends to maintain and consolidate the best national traditions and to promote economic and social development in keeping with those values. To this end, technical co-operation resources will be used to improve museums and artistic collections which focus on and show to the country and the world aspects of Costa Rica's history and some of its distinctive features.

D. Aid co-ordination arrangements

14. Pursuant to National Planning Act No. 5525, it is the responsibility of the Ministry of National Planning and Economic Policy to prepare, negotiate, co-ordinate, approve and evaluate technical assistance programmes, taking into account the objectives of the National Development Plan. The Ministry, through the National Planning System, comprising the regional and sectoral planning subsystems, links technical co-operation programmes and projects with the plans, needs and priorities of the country's economic and social development process. In performing this work it is assisted by the United Nations system in Costa Rica, represented by eight organizations and specialized agencies. UNDP performs the important function of co-ordinating and supplementing the technical and financial input of these agencies, with a view to maximizing the multiplier effect of co-operation on the national development process. In this connection, the UNDP Resident Representative's note includes the special sectoral inputs of the Food and Agriculture Organization of the United Nations (FAO), the World Health Organization/Pan-American Health Organization (WHO/PAHO), the International Labour Organisation (ILO) and the United Nations Educational, Scientific and Cultural Organization (UNESCO).

15. For the preparation of the fourth programme, UNDP created within the United Nations system, a co-ordinated mechanism for consultation and the preparation of criteria at the project level. In the social area in particular, UNDP took a number of important steps to co-ordinate activities with the World Food Programme (WFP), the United Nations Fund for Population Activities (UNFPA), and UNICEF on the one hand and with UNESCO, ILO, WHO/PAHO and the Economic Commission for Latin America and the Caribbean/Latin American Demographic Centre (ECLAC/CELADE) on the other.

16. The intention of the Ministry of National Planning and Economic Policy is for the UNDP country programme for Costa Rica 1987-1991 to provide the framework for the co-ordination and/or management of projects and resources from different

sources. Through the Office for Projects Execution (OPE), UNDP manages the technical assistance programme of the World Bank's structural adjustment programme (COS/86/RO1). It also manages trust fund operations and under management service agreements it administers other international technical co-operation resources. It likewise participates in co-ordinating pre-investment funds from multilateral lenders, in projects for which technical co-operation resources have been provided by the United States Agency for International Development (USAID) and in the multilateral and bilateral programmes of European countries. The Ministry also needs UNDP aid for the purpose of stimulating national activities relating to technical co-operation among developing countries (TCDC) and horizontal co-operation programmes with countries of Latin America and the Caribbean.

II. THE COUNTRY PROGRAMME

A. Assessment of previous country programme

17. The third country programme had a positive impact on economic and social development. Its objective was to support the process of financial stabilization and to introduce greater rationalization into the country's production apparatus through short-term measures and the orderly management of international financial relations. The priorities of the programme were linked with the Government's National Development Plan which became operational in 1982.

18. The third programme had an indicative planning figure (IPF) of \$2.6 million and mobilized total additional resources of \$14 million in the form of cost-sharing, trust funds, a management services agreement and resources provided by agencies of the United Nations system. Also during the period regional projects with headquarters in Costa Rica were implemented having an approximate value of \$19 million.

19. The programme established 13 projects focused on six national objectives and was approved by the UNDP Governing Council in 1982.

20. The heaviest concentration was on the agrarian sector for forestries development, the conservation of natural resources, agricultural technology and regional rural development. Resources allocated to the improvement of the social conditions of the population included a number of activities for the development of and assistance to disadvantaged groups through the provision of essential services and goods. The planning and development sector was strengthened through support programmes for national planning, administrative reforms and economic recovery. The industrial sector was strengthened by resources provided for industrial planning and free zones. Resources were also provided for the promotion of non-traditional exports to markets outside Central America. The technical capability for promoting export development and for using the installed capacity of existing industries was strengthened. In the field of science and technology, projects were developed on energy, including geothermal, uranium prospecting and the enhanced development of applied technology.

21. A number of the activities for the promotion of exports may be mentioned by way of example. The project on export promotion (COS/82/003) contributed to the establishment of the programme for the promotion of exports and investments by strengthening the operational machinery of the national institutions concerned while at the same time new markets for non-traditional products were investigated and a computerized data bank was established for information on such categories as products, importers, external markets and potential investors. Under another project, "Training in port operations" (COS/81/002), between 1982 and 1985, training was provided for 2,000 workers - 70 per cent in port operations - and 12 instructors. The efficiency of the ports was thereby enhanced, a matter of vital importance for the export sector. The impact of IPF-financed activities on export projects was increased by inputs from other sources such as the World Bank and bilateral agencies.
22. The third country programme included projects on economic policy such as the economic recovery project (COS/82/001), which facilitated the negotiation and signature of the agreement with the International Monetary Fund (IMF), the renegotiation of the 1985 and 1986 debt with commercial banks, and the obtaining of \$75 million in new resources. The project also helped in the renegotiation of the debt with the Paris Club, the negotiation of the structural adjustment loan with the World Bank and the preparation of the first bond exchange offered to international holders. The project on Technical assistance from the United Nations system in solving technical problems linked to short-term economic factors (COS/82/002) has, through short consultancies, aided sectors including housing, tax administration, science and technology, technical education, agricultural marketing, the co-operative sector and public investments. The third programme also provided assistance in connection with natural resources in the energy sector. The project Energy planning and development (COS/81/001) continued and three studies of energy consumption by different sectors of the national economy were prepared in that connection. This in turn made it possible to give a breakdown of energy balances by sector and by use, as also to make detailed demand projections.
23. Two important activities were begun at the end of the third cycle: a management services agreement for the World Bank's technical assistance loan (COS/86/RO1, for \$2,575,000), signed in November 1986, involving the administration of funds for the financing of studies which would make it possible to evaluate and facilitate the structural adjustment process in the country; and a thermal energy prospection project (COS/83/T01, for \$1,957,300), for which financing was provided by the Government of Italy through the United Nations Fund for Science and Technology for Development and approved in November 1986.
24. Taken together, the main conclusions of the assessment of the third programme indicate that:
- (a) The areas given priority corresponded to urgent needs in Costa Rica's development process. The activities undertaken through country programme projects in these fields, generally speaking, accomplished their purposes and represented solid and valid support in the achievement of the objectives established;

(b) Linkages between programme projects and UNDP regional projects should be intensified. Emphasis should be placed on the need for co-ordination and for complementing the new regional programme for Latin America and the Caribbean, in particular, the projects for the Central American subregion, with the new projects under the fourth country programme;

(c) Linkages between the programme and activities involving economic co-operation among developing countries (ECDC) have been reduced. There is nevertheless a growing possibility of horizontal co-operation with South America.

B. New programme proposal

25. The Ministry of National Planning and Economic Policy is responsible for establishing national policies and programmes in the field of technical co-operation. In that connection, it has decided to request UNDP to provide support during the fourth programming cycle for certain priority areas within the framework of the current Government's National Development Plan and for technical co-operation needs in the following areas:

(a) The improvement of machinery and procedures for governmental decision-making;

(b) Economic democratization and social consolidation;

(c) Restructuring of the economy;

(d) The strengthening of the national identity.

Assistance for the improvement of machinery and procedures for governmental decision-making

Ongoing projects

Technical assistance in solving technical problems linked to short-term economic factors (COS/82/002)

26. Under this project assistance is being provided to technical units of the Costa Rican civil service in the implementation of short-term economic and social activities included in the development plans. IPF: \$150,000; cost-sharing: \$200,000.

New projects

Support for the governmental decision-making process

27. The present Government has defined strategic areas within its economic and social programme which are important for the achievement of integrated development. This project will reinforce the operational capacity of the Government of the Republic to take priority actions which require speedy decisions. IPF: \$1,440,000.

Linkages

28. The new project on support for the governmental decision-making process has as its point of departure the experience of COS/82/002, and is being extended in order to provide direct support to the office of the President of the Republic in the decision-making process in strategic areas. Once the new project is under way the implementation of COS/82/002 will be suspended. This objective is also promoted by other contributions from the United Nations system, namely:

(a) The UNDP regional programme, including the projects on public management in Central America (RLA/86/021), executed by the Central American Institute of Public Administration, and on the revision and updating of planning in Latin America (RLA/86/013), with the participation of the Latin American Institute of Economic and Social Planning (ILPES) and ECLAC;

(b) The project for the Ministry of National Planning and Economic Policy (COS/86/W01) providing institutional support for the preparation of policies on women and for their inclusion in the National Development Plan;

(c) The project on support for the programmes of the Ministry of Planning (COS/84/L03), to be implemented with resources provided to the Government by USAID and administered by a UNDP trust fund.

Support for the process of economic democratization and social consolidation

New projects

Housing

29. The project will support national efforts to provide decent housing for the low-income population of the country. This project provides for research into and the use of locally-available low-cost materials and technology to build subsidized housing. IPF: \$300,000.

Economic democratization and social consolidation

30. The objective of the project is to help formulate policies to increase efficiency in the production sector, improve the physical plant of production units, achieve better income distribution and decentralize social policies and implementation of the formulation. IPF: \$380,000.

National employment programme

31. The project objective is to develop and consolidate national capacity for developing programmes and projects to generate productive employment especially in the outlying regions of the country so that a balance may be achieved between economic and social development. IPF: \$250,000.

Women

32. This project aims at identifying the legal and educational causes of womens' unequal participation in the development process, the economic and cultural consequences of this situation and programmes which might help to overcome it. IPF: \$50,000.

Drug control

33. The project will contribute to developing a programme of prevention and of comprehensive care for people with drug-dependency problems. IPF: \$50,000.

Education

34. Activity under this project will strengthen the educational system in rural areas of Costa Rica by introducing training to encourage awareness and use of new teaching methods involving computers. IPF: \$100,000.

Preventive health care in rural areas

35. This project will strengthen the preventive-health-care infrastructure in small communities by drawing up a programme for mini-aqueducts to provide the rural population with an adequate drinking water supply year-round. IPF: \$45,000.

Promotion abroad of Costa Rica's health education facilities

36. This project will help to increase the number of foreign students enrolling in the Faculty of Medicine of the University of Costa Rica and in post-graduate courses in the country's hospitals. IPF: \$45,000.

Linkages

37. Thr projects designed to achieve the second objective are intended to strengthen the democratic system in Costa Rica by enabling new social groups and regions in the country to share in the benefits of development. The programmes for women and for drug control are also aimed at remedying social conditions which are not consistent with the country's social aspirations. This objective is also promoted by other contributions from the United Nations system, namely:

(a) The UNDP regional programme, which includes projects on employment in the Central America subregion and Panama, with ILO and the Regional Employment Programme for Latin America and the Caribbean (PREALC) (RLA/86/034) and support for activities and strategies for school enrolment and improvement of the quality of education in Central America, with UNESCO (RLA/87/023);

(b) WFP projects: Community development in rural and suburban areas (COS/2524); Integration of refugees in socio-economic activities (COS/2775/Q); Basic sanitation infrastructure for community development in rural areas (COS/2796); and Support to small-scale farmers for the production of basic grains (COS/2761);

(c) UNFPA project for population education (COS/85/PO1) and the United Nations Development Fund for Women (UNIFEM) project for the integration of peasant women in the production process (COS/83/W01).

Promoting the economic restructuring process

Ongoing projects

Economic recovery (COS/86/004)

38. The project will provide support to the Government in renegotiating the foreign debt and obtaining new funds, in restructuring financial relations with other countries and in keeping account of and controlling the national debt. IPF: \$170,000; cost-sharing: \$170,000.

Unit for the preparation of forestry projects (COS/86/005)

39. The purpose of this project is to increase the forestry sector's contribution to the national economy and to co-ordinate activities being carried out in this sector, while at the same time promoting proper use of renewable natural resources and environmental protection. IPF: \$65,000; cost-sharing: \$120,000.

New projects

Increasing national saving

40. The project will assist the Government in formulating a programme to identify the necessary mechanisms to generate an increase in national saving. IPF: \$50,000.

Technological development

41. The central objective of the project is to help develop a new scientific and technological system to increase national productivity and to contribute to improving the competitiveness of national products in the international market. IPF: \$150,000.

Increasing labour productivity

42. The project seeks to promote new ways of organizing production that will increase labour productivity and contribute to the international competitiveness of national products. IPF: \$50,000.

Vertical expansion of production for export

43. The objective of the project is to identify mechanisms for improving co-ordination of the production process. IPF: \$50,000.

Foreign trade and exports

44. This project seeks to consolidate the mechanisms that are in operation for the promotion of non-traditional exports. IPF: \$200,000.

Planning of foreign trade

45. The purpose of the project is to strengthen the planning subsystem in the foreign trade sector in order to ensure that its plans and programmes are consistent with and function together with the work being undertaken in this area at the national level by the Ministry of National Planning and Economic Policy. IPF: \$100,000.

Agrometeorology

46. The purpose of this project is to increase crop harvests through adequate awareness of meteorological and climatic factors. IPF: \$90,000.

Strengthening the technical co-operation system

47. The purpose of this project is to strengthen State action in planning and programming the use of international co-operation resources within development plans and programmes, and especially in improving the system for project programming, implementation monitoring and follow-up. IPF: \$286,000.

Implementation of agricultural projects

48. The project seeks to develop a programme to increase the country's ability to use management techniques in implementing the agricultural programme. IPF: \$30,000.

Land tax information systems

49. The project will support the establishment of an information system to make possible a proper analysis of land distribution and use in the country for use in determining whether a progressive tax should be imposed on land lying idle. IPF: \$30,000.

Linkages

50. Economic trends in the country during the present decade have shown the clear need for structural adjustments in the national economy. For this purpose it is urgent not only to reduce the burden of external debt servicing, but also to generate more national saving and to invest it in ways that will boost productivity. At a time when financial and technical resources have acquired special importance for the country's development, a project on international technical co-operation has also been included. This objective is also promoted by other contributions from the United Nations system, namely:

(a) The UNDP regional programme projects in specific fields, for example: the Group of Latin American Caribbean Sugar Exporting Countries (GFPLACEA) Programme for Diversifying the Sugar Industry in Latin America (RLA/86/011), and the UNESCO Latin American Regional Bio-Technology Programme (RLA/83/009), both of which have an important technological component. Assistance through regional or subregional projects in the agricultural and co-operative sector is also being considered;

(b) The investments promotion project (COS/84/R51) consisting of a management services agreement whereby UNDP administers funds provided by USAID;

(c) The Programme of Technical Assistance for the Structural Adjustment Programme (COS/86/RO1), another management services agreement whereby UNDP administers funds from a World Bank technical assistance loan that complements the structural adjustment programme;

(d) The Geothermal Resources Exploration project (COS/83/201) with funds from the Government of Italy channelled through the United Nations Fund for Science and Technology for Development.

Strengthening of the national identity

New projects

Development of the country's historical and cultural heritage

51. The Project seeks to support the process, already under way, of expanding and completely reorganizing the country's cultural assets, especially the collection of the National Museum, with the main objective of providing Costa Rican society with a vigorous source of knowledge through which to define and strengthen Costa Rican identity and achieve a more unified national culture. IPF: \$90,000.

Linkages

52. This objective is also promoted by the UNDP regional programme's regional cultural heritage and development project (RLA/83/002) and the project on education in Central America (RLA/86/023).

C. Unprogrammed reserve

53. An unprogrammed reserve of \$400,000 has been set aside to finance unforeseen activities which may arise as the Government establishes new objectives not included in the areas of technical co-operation described above, or as a result of changes in the Government's development policies.

Annex

FINANCIAL SUMMARY

I. ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING

<u>A. UNDP-administered sources</u>	<u>\$</u>	<u>\$</u>
Third cycle IPF balance	11 000	
Fourth cycle IPF	4 571 000	
Subtotal IPF		4 582 000
Special Measures Fund for Least Developed Countries	-	
Special programme resources	-	
Government cost-sharing	533 500	
Third-party cost-sharing	-	
Operational funds under the authority of the Administrator	1 957 300	
UNDP special trust funds	-	
Subtotal, UNDP non-IPF funds		2 490 800
 <u>B. Other sources</u>		
Funds from other United Nations agencies or organizations firmly committed as a result of the country programme exercise	-	
Parallel financing from non-United Nations sources	-	
World Bank/Costa Rican Government	2 575 000	
Subtotal, other sources		<u>2 575 000</u>
 TOTAL ACTUAL RESOURCES TAKEN INTO ACCOUNT FOR PROGRAMMING		 <u><u>9 647 800</u></u>

II. USE OF RESOURCES

Ongoing projects	5 461 800	
New project proposals	3 786 000	
Programmed reserve	-	
Subtotal, programmed resources		9 247 800
Unprogrammed reserve		<u>400 000</u>
 TOTAL USE OF RESOURCES		 <u><u>9 647 800</u></u>
