

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK  
MULTILATERAL INVESTMENT FUND

**COSTA RICA**

**MATCHING NEW WORKFORCE SKILLS TO KNOWLEDGE ECONOMY  
DEMANDS**

**(CR-T1151)**

**DONORS MEMORANDUM**

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## PROJECT SUMMARY

### **Matching New Workforce Skills to Knowledge Economy Demands (CR-T1151)**

Costa Rica has been one of the most successful Latin American countries in diversifying its exports and promoting foreign investment in high technology. In 1995, bananas were Costa Rica's top export; in 2014, it was integrated electronic circuits; and in 2016, precision medical equipment. However, in its National Development Plan for 2015-2018, the Costa Rican government has identified the supply of qualified workers as a potential bottleneck for the country to continue attracting foreign investment in high-tech sectors and to catalyze technology spillover between the high-tech sectors and the rest of the economy.

Given the inadequate workforce profiles and the demands of tech-based companies, Fundación Monge proposes a comprehensive job training and placement program, based on mobile technology, for vulnerable young people aged 16 to 20 at urban public education institutions.

The project's objectives are to: (i) identify a clear work demand for young people in the sectors related to the knowledge economy; (ii) ensure that poor or extremely poor young people, in particular women, complete secondary school, start technical studies, and successfully enter the labor market in the specialized manufacturing and tech-based services sector; and (iii) test and compare three intervention models—(a) one during technical training at secondary school, (b) comprehensive technical training at the post-secondary level, and (c) comprehensive post-technical training programs—to contrast their effectiveness in terms of job placement so that the model can be scaled up by the public and private sectors. The ultimate objective is to support the Costa Rican government in meeting the private sector's demands in terms of workforce education in order to attract greater investment and more companies in knowledge-intensive sectors.

Eighty-five percent of the beneficiaries are expected to successfully find jobs and to be working for at least six months upon completion of the project. The MIF's value added is the introduction of training methodologies that strengthen soft skills and behaviors that are important for an effective transition into the workplace at knowledge economy companies through the use of augmented reality and virtual reality to simulate situations they would face at work. A system is also being created to evaluate the effectiveness of the interventions using instruments that, once calibrated and tested, could be strategically useful for the government in its efforts to boost its social investments and improve the outcomes of the different training projects for youth employability.

This is aligned with the IDB Group's strategic pillars in that it promotes productivity and innovation and with the Violence Prevention and Social Inclusion Promotion Program (CR-L1031) as it creates greater employment opportunities for at-risk young people. It is also aligned with the IDB Country Strategy with Costa Rica (2015-2018), which provides for "strengthening the human capital accumulation strategy" and, to that end, it expects to contribute to increasing the gross secondary school graduation rate.

## **ANNEXES**

Annex I      [Results Matrix](#)  
Annex II     [Summary Budget](#)

## **APPENDICES**

Proposed resolution

**AVAILABLE IN THE TECHNICAL DOCUMENTS SECTION OF THE MIF PROJECT  
INFORMATION SYSTEM**

Annex III	<a href="#">Itemized Budget</a>
Annex IV	Diagnostic Needs Assessment of the Executing Agency (DNA)
Annex V	<a href="#">Project Status Reports (PSR), Fulfillment of Milestones, Fiduciary Agreements, and Institutional Integrity</a>

## **ABBREVIATIONS**

CINDE	Coalición Costarricense de Iniciativas para el Desarrollo [Costa Rican Coalition for Development Initiatives]
DNA	Diagnostic needs assessment
MEP	Ministry of Public Education
MIF	Multilateral Investment Fund
MTSS	Ministry of Labor and Social Security

**COSTA RICA**  
**MATCHING NEW WORKFORCE SKILLS TO KNOWLEDGE ECONOMY DEMANDS**  
**(CR-T1151)**

**EXECUTIVE SUMMARY**

<b>Country and geographic location:</b>	Costa Rica, San José greater metropolitan area		
<b>Executing partner:</b>	Fundación Monge		
<b>Focus area:</b>	Knowledge economy		
<b>Coordination with other donors/Bank operations:</b>	VPS/EDU – CR-L1053 Education Infrastructure Construction and Equipment; VPS/ICS – CR-L1031 Violence Prevention and Social Inclusion Promotion Program; VPS/CTI – CR-L1043 Innovation and Human Capital for Competitiveness Program.		
<b>Project clients:</b>	800 at-risk young people aged 16 to 20 years old with leadership potential (50% men, 50% women). 120 school directors, counselors, and company coordinators trained in job placement, 6 training centers, and 100 mentors.		
<b>Financing:</b>	Technical cooperation funding:	US\$1,120,000	32%
	Investment:	N/A	
	Loan:	N/A	
	Other (explain):	N/A	
	<b>Total MIF Contribution:</b>	US\$1,120,000	
	Counterpart:	US\$2,364,000	68%
	Cofinancing (include a separate line for IDB cofinancing, if applicable):		
	<b>Total Project Budget:</b>	US\$3,484,000	100%
<b>Execution and disbursement period:</b>	36 months of execution and 42 months of disbursements.		
<b>Special contractual clauses:</b>	Condition precedent to the first disbursement: (1) Appointment of project coordinator.		
<b>Environmental and Social Impact Review:</b>	This operation was pre-evaluated and classified in accordance with the requirements of the IDB's Environment and Safeguards Compliance Policy (Operational Policy OP-703). Since the impacts and risks are limited, ESG classified this as a category "C" operation on 13 September 2016.		

## I. PROBLEM TO BE ADDRESSED

### Problem description

- 1.1 Costa Rica has been one of the most successful Latin American countries in diversifying its exports and promoting foreign investment in high technology. In 1995, bananas were Costa Rica's top export; in 2014, it was integrated electronic circuits; and in 2016, precision medical equipment. However, in its National Development Plan for 2015-2018, the Costa Rican government has identified the supply of qualified workers as a potential bottleneck for the country to continue attracting foreign investment in high-tech sectors and to catalyze technology spillover between the high-tech sectors and the rest of the economy<sup>1</sup>.
- 1.2 The low education level of the workforce is also a problem for individuals: people that do not hold sufficient qualifications are limited to working in low-productivity sectors and earn salaries insufficient to cover their basic needs and those of their families. This situation jeopardizes the government's vision of "promoting economic growth and creating quality jobs" and "combatting poverty and reducing inequality."
- 1.3 In Costa Rica, the secondary school dropout rate in 2014 was 8.7%, and the secondary school retention and success rate was just 37%.<sup>2</sup> In the first quarter of 2016, 21.7% of young people 15 to 24 years old neither studied nor worked, and their unemployment rate was 22.7%<sup>3</sup>. There are public programs to generate human capital in areas of demand, such as manufacturing and especially in services, but their results have yet to meet the expectations of companies, with a 44% job placement rate according to a Ministry of Labor poll. There is no good mechanism to evaluate the effectiveness in terms of job placement of school training and technical postsecondary education.
- 1.4 The multinational companies in life sciences, advanced manufacturing, and information technologies sectors require around 7,000 people with technical training, soft skills and English, and some 3,000 people join the workforce each year, leaving a significant deficit<sup>4</sup>. Additionally, the companies in these sectors face high levels of employee turnover and dissatisfaction with the placement among part of the hired workforce. In addition to the multinational corporations, the small and medium-sized enterprises in IT and manufacturing sectors also have unmet demand for qualified technicians.

## II. SOLUTION

### Project description

- 2.1 **Objectives:** The ultimate objective is to contribute to the Costa Rican government's development strategy to meet the private sector's demands in terms

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<sup>1</sup> According to the World Bank Enterprise Survey, 37% of companies that export more than 50% of their production consider the inadequate education of the workforce to be a significant or highly severe obstacle to the growth of their businesses.

<sup>2</sup> Only 37 of every 100 children enrolled in first grade in 2002 passed the diversified cycle (twelfth year) in 2014.

<sup>3</sup> National Statistics and Census Institute (INEC) 2016.

<sup>4</sup> CINDE, Human resources gaps, March 2016.

- of workforce training in order to continue to attract greater investment and more companies in knowledge-intensive sectors. This project will boost the technical training of human capital for quality jobs in knowledge-intensive industries (manufacturing of electronic equipment, precision medical equipment, programmers, etc.). The quality of the workforce is indispensable in order for technology spillover to take place and to coordinate the links that the government hopes to promote among the high-tech sectors and the rest of the economy.
- 2.2 **The target population** of the pilot project will include 800 at-risk young people from 16 to 20 years old with leadership potential but facing social risks, from poor or extremely poor families at educational institutions in the greater metropolitan area. The project will also include training centers, 40 school directors, 40 counselors, and 40 company coordinators (responsible for employment intermediation) at technical schools. The young people participating will come from **three target groups**: (a) young people enrolled at technical schools receiving technical secondary school education; (b) young graduates from academic schools who will receive comprehensive technical training at the postsecondary level; and (c) the young graduates from technical schools who have not found jobs because they did not meet job opening requirements, who will receive comprehensive training after their technical training.
- 2.3 **The proposed solution** will aim to have the young people complete secondary school, start technical studies, and successfully join the workforce in the specialized manufacturing and technology-based services sector, including information and communication technologies. Therefore, the solution has three fundamental elements: (i) identifying clear labor demand for young people at companies from sectors related to the knowledge economy and directing training efforts to meet that demand; (ii) optimizing Fundación Monge's Soy Cambio training program by testing and comparing different intervention models with the three target groups of young people (see paragraph 2.2), including the new methodologies based on virtual reality and content enrichment; and (iii) contrasting the effectiveness of the different models tested in terms of job placement at knowledge economy companies so that the critical factors for workplace success can be identified and the best model can be scaled up through the public and private sectors. The government currently does not systematically evaluate the outcomes of the job training efforts undertaken and, therefore, a rigorous evaluation of the outcomes in terms of job placement and the cost-benefit ratio will make it possible to make well-informed decisions in terms of the possible youth training models for employment at the Ministry of Public Education (MEP) and Ministry of Labor and Social Security (MTSS).
- 2.4 The Soy Cambio training program is based on the following elements: (a) **monitoring and support**: each scholarship holder receives monthly monitoring from a mentor, in close coordination with the educational institution, for the timely identification and addressing of risks that could lead to dropout or failure at school; (b) **economic support**: so that students can finance part of their expenses during their time at the school (academic or technical); (c) **competitive skills**: based on the needs identified by companies through technology-based technical training and in training soft skills, including the development of analytical and language skills; the program also includes **work internships**; and (d) **mentoring**: for six months following job placement at the workplace. These key elements help the

- individual in the transition between the educational institution and the workplace, and in handling the expectations to successfully meet the work demands of technology companies.
- 2.5 **Innovation:** For the first time, virtual reality technologies with gamification components will be used. These tools will make it possible to improve the soft skills acquired by young people at the work sessions with Fundación Monge by facing simulations of working life, thereby increasing the probability of succeeding in the difficult transition between school and work. The introduction of virtual reality will make it possible to immerse young people in artificial work environments (job interviews, meetings, etc.), where they can interact, learn, and apply new knowledge acquired during the training process with Fundación Monge. The gamification makes it possible to identify the profiles required by the companies and converts them into topics to be addressed in real-life experiences through interactive games that lead to shared learning group sessions. Both of these approaches create a highly interactive, motivating learning environment that is appealing to the beneficiary population.
- 2.6 To illustrate the current uses of these strategies, multinational companies have begun to use virtual reality in their onboarding and technical training processes, incorporating corporate culture and expected worker behavior, as well as the physical conditions that they would face in specialized manufacturing, such as clean rooms and work with microscopes, tasks that require production lines with high-tech components of interactive games that lead to shared learning group sessions.
- 2.7 **Component 1: Creation of partnerships for training and job placement.** The focus of this component is to create conditions for improving the identification of supply and demand for technical jobs at knowledge economy companies and to increase the effectiveness of work internships and job placement for low-income young people. This will be achieved through partnerships with the public sector for aspects concerning relationships with young people and company coordinators at educational institutions, and with the private sector in terms of knowledge and behavior gaps, and job opportunities. Fundación Monge will coordinate with Coalición Costarricense de Iniciativas para el Desarrollo (CINDE), an institution devoted to investment attraction and relations with multinational companies, to keep abreast of trends and projections, future job market prospects for multinational companies, and market intelligence to obtain feedback on areas requiring adaptation or improvement in training. It will also coordinate with other sector chambers, such as the Chamber of Information and Communication Technologies (CAMTIC), for partnerships with information and communications technology companies.
- 2.8 Based on its collaboration agreement, Fundación Monge will also take actions with the MEP in the departments related to technical education, counseling, and coordination with companies. At the local level, it will coordinate with directors and teachers at the schools participating in the project as well as the participating private technical training centers. The counselors and company coordinators at participating public schools will hold annual boot camps with peer-to-peer role models and will promote the creation of professional and support networks, observation visits to forge contacts with multinational companies and local

information and communications technology companies, training of human resources experts on recruitment processes, preparation for interviews, and preparation of CVs, etc. The branding of Fundación Monge/CINDE Soy Cambio will be an additional facilitation mechanism to support the matchmaking of young people and companies. The feasibility of the companies paying Fundación Monge a certain fee for the human resources hired who meet expectations will be explored. The expected outcomes include partnerships with 40 public schools, 6 technical training centers, 60 hiring companies, 4 chambers and business associations, and 5 government bodies.

2.9 **Component 2: Job training.** The objective of this component is to prepare low-income young people, 16 to 20 years old, so that they fit the profile sought by the tech firms and are therefore able to find quality employment. The preparation will be enhanced to make it possible to fit the profile, which includes: (i) technical training; (ii) soft skills; and (iii) an intermediate level of English. The young people participating will come from **three target groups**: (a) young people enrolled at technical schools who receive technical secondary education, (b) young graduates from academic schools who will receive comprehensive technical training at the postsecondary level; and (c) young graduates from technical schools who have not found jobs because they did not meet the job opening requirements who will receive comprehensive training after the technical training they already received. To address socioemotional topics, Fundación Monge has an activities menu, which will be supplemented by virtual reality technologies, gamification, and other mechanisms conducive to continued learning and curiosity. This includes hackathons with young people to test and develop the use of virtual reality technologies; and activities focused on strengthening the development of soft skills. The participants will receive mentoring and monthly monitoring during the training period and up to 6 months after obtaining employment. Groups of graduates of the Fundación Monge Soy Cambio program will be formed to serve as role models and mentors for the young people that join the program. The expected results include: 800 young people trained; 6 augmented/virtual reality modules tested; 4 groups of alumni trained; 20 alumni serving as mentors; and 100 Fundación Monge mentors trained.

2.10 **Component III: The model to be scaled up.** The objective is to evaluate the Soy Cambio program in its different modalities (focused on the three groups of young people detailed in paragraph 2.9) to determine the effectiveness and cost-benefit ratio of the models with the idea of scaling up the most cost-effective model moving forward. The methodology and monitoring and evaluation instruments for employability training programs will be shared with the MEP, MTSS, and other interested parties. A case study of the optimized Soy Cambio program will also be developed with new elements provided by this project; and videos will be prepared of young role models, counselors, and company coordinators for continued training. The expected outcomes are: a training model for employability tested and evaluated for three populations and one methodology for monitoring and evaluating job training outcomes.

#### **Project outcomes, impact, monitoring, and evaluation**

2.11 As an impact indicator, at least 85% of the young beneficiaries are expected to successfully join the labor market and remain in their positions for at least

six months after project completion. The reasons for the intervention group's failure to join the workforce will also be documented. The project outcomes in terms of partnerships will be 40 public schools, training centers, 60 hiring companies, 4 chambers and business associations, and 5 government bodies. Training will be provided to 800 young people, creating and testing at least 6 virtual reality modules, supported by 4 groups of trained alumni, and 20 alumni serving as mentors, as well as 100 trained Fundación Monge mentors. There will be an intervention model for employability of young people in knowledge economy jobs that has been evaluated and standardized to be replicated and scaled up.

- 2.12 In terms of monitoring and evaluation, Fundación Monge has developed a monitoring system to track the academic performance of students with scholarships and to record the outcome of monthly meetings with mentors to assess the emotional state of beneficiary students. The project will contribute to expanding the information recorded in Fundación Monge's monitoring systems and it is expected to include information on job placement and retention as well as testing various instruments during the beneficiary selection process to assess factors such as self-efficacy, grit, and conscientiousness, which are associated with long-term success and achievement. These instruments will make it possible to evaluate and enhance Fundación Monge's selection process (the information is expected to be gathered through online questionnaires, at no additional cost to the project). Fundación Monge's beneficiary selection process also offers the possibility of assessing the program's impact (using a regression discontinuity design) and comparing the effectiveness of the different intervention models and the cost-benefit ratio at a low cost. The results of this evaluation are key in scaling-up the program and can be a highly useful input for public policy in Costa Rica. At the end of the execution period, using funds included in the project budget, the Bank will sign a services contract with a surveying firm to gather information on the status of beneficiaries and nonbeneficiaries of the project (mainly academic training, employment, and employment income) to document the effectiveness of the intervention (monitoring is planned through a surveying firm because of the difficulty in monitoring young people after they have graduated or left the education system).

### **III. ALIGNMENT WITH THE IDB GROUP, SCALABILITY, AND PROJECT RISKS**

#### **Alignment with the IDB Group**

- 3.1 One of the strategic pillars established by the IDB Group in its institutional strategy is boosting productivity and innovation by sharing appropriate knowledge and providing ecosystems for innovation. The IDB Country Strategy with Costa Rica (2015-2018) provides for "strengthening the human capital accumulation strategy," and to that end it expects to contribute to increasing the gross secondary school graduation rate. There could also be synergies with the Violence Prevention and Social Inclusion Promotion Program (CR-L1031) that seeks to create greater employment opportunities for at-risk young people. This project is aligned with the country strategy as it will result in greater school retention and job opportunities for young people. It is also aligned with the IDB Group's strategy as it will increase the technical knowledge of young people and will encourage them to work in sectors where innovation is innate, such as the technology sector.

### **Scalability**

- 3.2 The project envisions **two levels of scale**. The first is a strategic scale at the national level with a dual purpose: (i) to promote quality jobs in the knowledge economy, and (ii) to promote socioeconomic inclusion of the vulnerable population, where the initiative will create a demonstration effect and inputs that the Ministry of Education and governmental social investment bodies, partners in the project, can replicate on a larger scale based on the outcomes achieved. In addition, the evaluation tools used in the project will be available as a public good to be used in the future. The private sector would participate in the scaling up through its internships, recruitment, and education programs. A second scaling-up process is regional, where Fundación Monge, based on lessons learned and in partnership with additional financiers, would replicate the same initiative in a subsequent stage adapted for Nicaragua, Guatemala, and Honduras, where Grupo Monge has a presence and carries out Fundación Monge activities.
- 3.3 **Sustainability:** After completion of the pilot project, based on the studies of Component III, Fundación Monge will have its model evaluated to determine the key elements to better manage its resources, and the Ministry of Education and the Ministry of Labor and Social Security will be able to leverage the model's merits to improve the effectiveness of public resource allocation for job training. Teachers and facilitators trained on the project will be empowered to continue the company coordination and vocational counseling processes.

### **Project risks**

- 3.4 One risk for the project is reluctance to participate in the training on the part of the company coordinators at the schools. This will be mitigated through the participation of school directors and the training process dynamics. Another risk is that the young people do not have smartphones with sufficient capacity for the augmented reality programs. This will be mitigated through technology packages at Fundación Monge for the tech-based activities. The new nature of the technology could be considered a risk as well as the lack of internal experts to supervise the contractor. This could be mitigated by hiring an external expert. Another risk could be Fundación Monge's internal capacity to simultaneously monitor 800 young people. This would be internally mitigated through an increase in staff at Fundación Monge and administrative reinforcement.

## **IV. COST AND FINANCING**

- 4.1 The project has a total cost of US\$3,364,000. Of this amount, the MIF will contribute US\$1,120,000 (32%) and the counterpart will contribute US\$2,364,000 (68%).

	<b>Project components</b>	<b>MIF (US\$)</b>	<b>Counterpart (US\$)</b>	<b>Total (US\$)</b>
1	<i>Creation of partnerships for training and job placement</i>	34,000	15,000	49,000
2	<i>Job training</i>	867,500	2,262,600	3,128,100
3	<i>The model to be scaled up</i>	72,500	0	74,500
4	<i>Management</i>	0	86,400	86,400
5	<i>Impact evaluation*</i>	120,000		120,000
6	<i>Contingencies</i>	20,000	0	20,000
7	<i>Ex post reviews</i>	6,000	0	6,000
	<b>Total</b>	<b>1,120,000</b>	<b>2,364,000</b>	<b>3,244,000</b>

*\*This evaluation could be contracted by the Bank.*

## **V. PROJECT PARTNERS AND IMPLEMENTATION STRUCTURE**

### **Description of Project Partner(s)**

- 5.1 Fundación Monge will be the project executing partner and will sign the agreement with the Bank. Fundación Monge<sup>5</sup> has 10 years of experience with its leadership and employability program for at-risk young people, with very strong results in terms of small-scale job placement (71% placed). Fundación Monge has partnerships with the public sector in Costa Rica (CINDE, an investment promotion agency; the Ministry of Education and the Ministry of Labor; the Universidad Técnica Nacional, and the Instituto Nacional de Aprendizaje), the Politécnico Internacional, and private sector companies, such as UST (leader in technology services and business services), Ingram Micro Inc., and Abbott. Fundación Monge also has strong ties to civil society organizations. Fundación Monge has recently executed employability projects for young people for the United States Embassy and UNESCO. Fundación Monge has been effective in coordinating relevant stakeholders and in identifying technical training opportunities to meet the requirements of employees at the companies. The institutional analysis was satisfactory, and the integrity analysis did not produce any significant observations.
- 5.2 The Ministry of Public Education (MEP) will be a key partner, especially in relation to the participating schools, and its technical education, counseling, and company coordination departments. Fundación Monge is executing a collaboration agreement with the MEP that sets forth the terms and conditions for participation.
- 5.3 CINDE will be another partner representing multinational companies through its investment climate department, and in the prospective analyses of technical staff requirements defined in the investment attraction strategy and an increase in current company investments and activities in Costa Rica.

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<sup>5</sup> Fundación Monge is the corporate foundation of Grupo Monge. Grupo Monge has more than 400 white goods and electronic equipment stores in Central America and Peru, and also provides remittance and microfinance services.

- 5.4 The Ministry of Labor (MTSS) will be a partner for the potential support provided to part of the beneficiary student population from poor or extremely poor families, in work intermediation processes, and as a party interested in the evaluations of job placement effectiveness.

**Structure and implementation arrangements**

- 5.5 Fundación Monge will establish an executing unit and the structure needed to lead coordination between participating public and private bodies, execute project activities, either directly or through agreements or contracts, and manage project resources efficiently and effectively. Fundación Monge will also be responsible for submitting project status reports to the MIF on project implementation and attainment of results. Details on the structure of the executing unit and the requirements for project status reports can be found in Annex V of the technical files for this operation.
- 5.6 To support Fundación Monge in the coordination of activities between participating bodies, an advisory committee will be created, led by Fundación Monge representatives, and made up of one representative each from CINDE, MEP, and MTSS, and an expert in human resources and recruitment. This committee will meet on an ad hoc basis to propose ideas to strengthen the planned activities.

**VI. FULFILLMENT OF MILESTONES AND SPECIAL FIDUCIARY ARRANGEMENTS**

- 6.1 Results-based disbursements and fiduciary arrangements. Fundación Monge will agree to the standard MIF arrangements concerning results-based disbursements, procurement, and financial management, as specified in Annex V. Since Fundación Monge is a private sector body with defined procedures for the procurement of goods and services and other administrative instruments, Fundación Monge's procedures will be followed, with any relevant adjustments to contract formats.