

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COSTA RICA

EDUCATION INFRASTRUCTURE CONSTRUCTION AND EQUIPMENT

(CR-L1053) (2824/OC-CR))

PROPOSED MODIFICATION OF RESOLUTION DE-161/12

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I. BACKGROUND

- 1.1 The program titled “Education Infrastructure Construction and Equipment” (CR-L1053) was approved by the Bank’s Board of Executive Directors on 1 November 2012 (2824/OC-CR), by means of Resolution DE-161/12, for up to US\$167 million. The program calls for the borrower and executing agency to be a trust established by the Republic of Costa Rica and represented by a public-sector development bank, with the guarantee of the Republic of Costa Rica. Loan contract 2824/OC-CR has not yet been signed.
- 1.2 After the financing was approved by the Bank’s Board of Executive Directors, the Government of Costa Rica submitted the program to the Legislative Assembly, requesting authorization for the Republic of Costa Rica to establish the trust to finance the education infrastructure construction and equipment project of the Ministry of Public Education (MEP) nationwide. In the same proposed legislation, the government also requested that the Legislative Assembly authorize the trust to seek external financing as a borrower, with the sovereign guarantee of the Republic of Costa Rica.
- 1.3 Legislative Decree 9124, titled “Authorization for the Executive Branch to establish a trust with lease contracts and sign a public finance transaction to finance the Ministry of Public Education’s education infrastructure construction and equipment project nationwide,” was passed on 21 March 2013. The Legislative Assembly thereby: (i) authorized the Government of Costa Rica to establish a trust to execute the program; (ii) authorized this trust to take out loans from national and international banks to execute the program; (iii) authorized the Ministry of Finance to issue the sovereign guarantee of the State to back the loan operation, if necessary; and (iv) authorized the trust to execute the program for up to US\$167,524,234.
- 1.4 With the Legislative Assembly’s authorization to establish the trust, the Government of Costa Rica selected Banco Nacional de Costa Rica (BNCR) as the trustee. On 24 April 2013, the MEP and the BNCR signed the contract establishing the “trust for the financing of the education infrastructure construction and equipment project of the Ministry of Public Education nationwide.” In accordance with the law, approval of the contract signed by the MEP and the BNCR was then sought from the Office of the Comptroller General of the Republic and obtained on 24 July 2013. This was the date on which the contract went into effect and the trust could commence operation.
- 1.5 With the contract in effect, the BNCR, as trustee for the trust and by express mandate of the law authorizing establishment of the trust, conducted a market study to identify the most cost-effective source of financing for the program, and issued a call for statements of interest from national and international banks and multilateral financing institutions. The Inter-American Development Bank submitted its loan proposal on 23 August 2013, on the basis of the line of credit approved by the Bank’s Board of Executive Directors (2824/OC-CR) in November 2012 through Resolution DE-161/12.

- 1.6 After reviewing the various bids it received, and on the basis of its analysis of costs and terms of financing, the BNCR concluded that the most cost-effective option was the proposal submitted by the IDB, and the IDB was awarded the opportunity to finance the program. The Ministry of Finance subsequently announced its intention to issue a sovereign guarantee for the operation to be signed by the trust, in a letter sent to the IDB on 24 September 2013.
- 1.7 As a result, negotiations began on 31 October 2013 for loan contract 2824/OC-CR, to be signed between the BNCR and the IDB, as well as the sovereign-guarantee contract to be signed between the Ministry of Finance and the IDB. During these negotiations, the BNCR requested that the loan amount approved by the Bank's Board of Executive Directors be increased from US\$167,000,000 to US\$167,524,234 so that the loan operation would reflect the exact maximum amount authorized by the Legislative Assembly and so that all projected program costs could be covered.

II. REQUESTED MODIFICATION

- 2.1 Given that the loan contract to finance the program has not yet been signed, it is proposed that the Board of Executive Directors be asked to approve the modification of Resolution DE-161/12 to increase the amount of the approved loan by US\$524,234, from US\$167,000,000 to US\$167,524,234. The loan operation approved by the Board of Executive Directors will thereby reflect the exact amount authorized by the Legislative Assembly of the Republic of Costa Rica for program financing, in response to the request made by the borrower and the Republic of Costa Rica during contract negotiations.
- 2.2 This request does not entail any changes in the objectives, structure, activities, works, goods, or services to be financed by the program originally approved by the Board of Executive Directors by means of Resolution DE-161/12; rather, it merely fine-tunes the exact amount of the financing in accordance with the amount approved by the Legislative Assembly. Nor does this request entail any changes in the program's objectives or components, expected outcomes, or executing agency, or any other changes that might be considered substantial changes to the program pursuant to document OA-430. The additional resources approved for the program will be allocated to monitoring and contingencies (Table 1).

Table 1. Costs (US\$)

Category of spending	Original financing	%	Amended financing	%
Component 1. Construction and equipment of primary schools	30,883,195	18.5%	30,883,195	18.4%
Component 2. Construction and equipment of secondary schools	116,274,206	69.6%	116,274,206	69.4%
Component 3. Construction of cultural and athletic facilities	8,870,016	5.3%	8,870,016	5.3%
Financial costs, administration, monitoring, and contingencies	10,972,583	6.6%	11,496,817	6.8%
TOTAL	167,000,000		167,524,234	%