

TC Document

I. Basic Information for TC

▪ Country/Region:	COSTA RICA
▪ TC Name:	Implementation of efficient, responsible, and sustainable Public-Private Partnerships in Costa Rica.
▪ TC Number:	CR-T1274
▪ Team Leader/Members:	Siqueira Moraes, Marcos Team Leader; Leduc, Denis Alternate Team Leader; Suarez Aleman, Ancor Alternate Team Leader; Vega Garcia, Pablo (CID/CCR); Dugand Ocampo, Juan Carlos (FMP/CCR); Castrosin, Maria Pilar (VPC/002); Landazuri-Levey, Maria C. (LEG/SGO); Melisa Gonzalez; Miryam Banda
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	.
▪ Date of TC Abstract authorization:	12 Feb 2024.
▪ Beneficiary:	The Republic of Costa Rica
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC SDP Window 2 - Economic Growth(W2F)
▪ IDB Funding Requested:	US\$1,200,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	60 months
▪ Required start date:	1 Sep 2024
▪ Types of consultants:	Firms
▪ Prepared by Unit:	INE/PPP-Public Private Partnerships Single Window
▪ Unit of Disbursement Responsibility:	INE/PPP-Public Private Partnerships Single Window
▪ TC included in Country Strategy (y/n):	n
▪ TC included in CPD (y/n):	y
▪ Alignment to the Second Update to the Institutional Strategy:	Environmental sustainability; Productivity and innovation; Social inclusion and equality

II. Objectives and Justification of the TC

II.1. Objective: This technical cooperation aims to promote private sector participation in infrastructure projects in Costa Rica. This TC will accomplish this objective through 3 areas of intervention: (1) upstream support to Costa Rica, such as PPP regulatory and institutional reforms, that details the operation of a project preparation facility (PPP-PPF), (2) Screening and prioritization of projects against criteria such as sustainability, impact and feasibility, (3) support to contracting authorities to assess the viability and to structure one sustainable, efficient and responsible PPP project.

II.2. Justification: Costa Rica will require around USD 24.7 billion in infrastructure investment until 2030 to meet the Sustainable Development Goals (SDGs). These investments are needed in a complex macroeconomic and fiscal context. Public debt relative to GDP increased from 37.5% in 2014 to 66.9% in 2020. As a result,

the Government and the International Monetary Fund (IMF) reached an agreement for an Extended Fund Facility (EFS) of US\$1.75 billion in 2021. This program has been expanded through the Resilience and Sustainability Facility (RSF) Program to provide affordable long-term financing to countries undertaking reforms to reduce risks to the prospective stability of the balance of payments, including those related to the climate change and pandemic preparedness. Under this scenario, there is a limitation of resources available for public investment and there is a need to optimize the fiscal space to provide infrastructure investment.

II.3. Thus, attracting the private sector to finance, implement and manage sustainable infrastructure is essential to meet the SDGs. Costa Rica has implemented Public-Private Partnerships (PPPs) since 1992. However, the preparation of sustainable projects in Costa Rica faces historically several challenges, including the availability of funds and the technical capacity to carry out effective project preparation and bankable projects to be launched to the market. Moreover, the duplicity of roles and responsibilities, and the multiplication of laws and regulations made the PPP Framework unclear for the private sector and the government itself. In that sense, the IDB made several efforts to support the government to improve its PPP Framework:

II.3.1. Supported by the Technical cooperation RG-T4199, which aims to strengthening of regulatory and institutional conditions to trigger a new generation of Public-Private Partnerships in Latin America and the Caribbean, the Bank is currently financing consultancy services to prepare a new PPP Law and its regulation to be approved by the congress, as well as the elaboration of guides and manuals that promote the preparation of sustainable and fiscally responsible PPP Projects.

II.3.2. Support by the Technical Cooperation CR-L1139, which aims to, among other goals, improve the technical and institutional capacity of the Government of Costa Rica to develop road projects via PPP mechanisms through the financing of specialized PPP certifications and training for public employees, and the preparation of PPP projects under the asset recycling modality.

II.4. This initiative follows international best practices for the preparation of sustainable projects, contributing to the design of a project preparation facility and providing resources to screen, prioritize and prepare a pilot PPP project. The PPP PPF will build on the IDB's experience in setting up PPP-PPF in the region (Brazil, Colombia, Jamaica), as well as the IDB's current technical assistance to the country, working closely with the government (Ministry of Treasury and National Concessions Council of the Ministry of Public Works) to develop and update institutional coordination guidelines, implementation manuals and PPP best practices to ensure the sustainable development of PPPs – environmental and social sustainability of infrastructure projects .

II.5. The preparation of high-quality PPP projects is a key condition for the success of private sector investment programs in public infrastructure. The experience of the IDB Group since the establishment of the PPP single window shows us how it is still necessary to act on the generation of a socially sustainable and bankable projects portfolio, as well as on various mechanisms and facilities for the

preparation and structuring of projects that allow channeling a better and greater mode of financing for infrastructure.

- II.6. The establishment of Project Preparation Facilities (PPF) has been a very successful strategy for developing countries. The IDB's Office of Oversight and Evaluation has identified in a report published in 2016 that several multilateral organizations have been dedicated in creating dedicated institutions to concentrate expertise and manage specific resources to conduct the preparation of PPP projects. These project preparation facilities can help governments to overcome the most common challenges for PPP project preparation because 1) they can guarantee that the adequate amount of resources is dedicated to project preparation, irrespective of the short term budgetary cycles; 2) they can consolidate knowledge and expertise to guarantee that best practices are applied to projects, independently of sector or contracting agency; and 3) they can obtain financial sustainability through the mechanism of contingent recovery. There are two triggers for the costs' recovery: First, if the project reaches commercial closure, the winning bidders repay the costs of project preparation, effectively internalizing the preparation costs to the project life-cycle. Second, if a viable project is cancelled by the public agency without technical justification, the cost should be reimbursed appropriately to the PPF.
- II.7. The PPP PPF will also build on IDB's current technical assistance to the country (RG-T4199 through the growth initiative led by VPC), where it works upstream closely with the government (Ministry of Finance and Ministry of Public Works' Consejo Nacional de Concesiones) to develop a new PPP Law and its regulation.
- II.8. Additionally, this initiative will take place in the context of the Resilience and Sustainability Facility (RSF) arrangement approved by the International Monetary Fund (IMF)'s Executive Board in November 2022 and concluded in June 2024, in the amount of US\$ 725 million at the time of approval of the arrangement.¹ The RSF arrangement supports reforms to integrate climate risks into fiscal planning, strengthen public investment and infrastructure resilience to climate change, support its decarbonization efforts, and reinforce the ability of its financial sector to assess and manage climate-related risks¹.
- II.9. **Strategic Alignment.** The TC is aligned with the IDB Group new Institutional Strategy (Transforming for Scale and Impact) through the following operational focus areas: (i) sustainable, resilient, and inclusive infrastructure, by supporting well-structured PPPs interventions; and (ii) gender equality and inclusion of diverse population groups, by promoting the provision of infrastructure that gives the population access to services and better living conditions. In addition, the TC is aligned with the Sustainable Infrastructure Strategy for Competitiveness and Inclusive Growth (GN-2710-5), to support the construction and maintenance of a socially and environmentally sustainable infrastructure, contributing to increase the quality of life, through the encouragement of innovatively channels of private financing. This TC is also consistent with the Transport Sector Framework (GN-2740-12) to promote private sector participation in transportation and where it is

¹ <https://www.iadb.org/en/news/costa-rica-engages-multilateral-partners-launch-sustainable-project-preparation-facility-and>

stated how infrastructure quality improves with the involvement of the private sector in construction and operation. Finally, the TC is aligned with IDB Group Country Strategy with Costa Rica 2019-2022 (GN-2977) and its extension, in the strategic objective of (ii) development of quality and resilient infrastructure with criteria of inclusion and environmental sustainability.

III. Description of activities/components and budget

In order to complete the objectives of this operation, three components will be developed:

- III.1. Component 1: Upstream interventions: Technical support to the implementation of a Public Private Partnership Project Preparation Facility (US\$50.000 - non-reimbursable).** This component will finance consulting services that will support the government in the effective implementation of a Project Preparation Facility in the Country. Specifically, the component will support activities such as:
 - III.1.1. The drafting the regulatory and institutional framework for the PPP-PPF, including activities such as the development of regulations and operational guidelines
 - III.1.2. The design of the operational structure, including governance, roles, and responsibilities.
 - III.1.3. The drafting of processes and procedures for project identification, selection, preparation, and financing.
 - III.1.4. The drafting of processes and procedures to mobilize funding from other donors and MDBs en catalyze funding through the PPP-PPF
 - III.1.5. The establishment of guidelines for staffing, internal regulations, stakeholder engagement, risk management, and key directives for project monitoring and evaluation.
- III.2. Component 2: Screening and prioritization of PPP projects (US\$ 50.000 - non-reimbursable).** This component will finance consultancy services that support Costa Rica in PPP project screening and project prioritization. Especially, this component will finance consultancy services required to:
 - III.2.1. Identify, according to international best practices, and methodologies previously developed by IDB, key flags of sustainability, feasibility (such as, commercial, environmental, fiscal, technical and political viability), impact (such as, social, environmental, developmental and economic impact), maturity and capacity to generate value for money of PPP projects.
 - III.2.2. Analyze a list of pre-identified projects presented by the National Concessions Council and generate studies focused on the preliminarily screening of those projects against the flags previously identified. This list will include projects that are in line with national priorities as well as IDB's country strategy and might include infrastructure projects in sectors such as transport, water and sanitation, solid waste management, health and energy. This list may also be expanded with projects that are included in the national Infrastructure Master Plans or the Central America Regional Master Plan 2035 on Mobility and Logistics (RG-T4532).

III.3. **Component 3: Feasibility and structuring of one PPP project (US\$1,100,000 – non reimbursable).** This component will finance consulting services to produce studies necessary for the preparation and structuring of one transport project that has been selected and prioritized by the government, including the design of the full business case, at the prefeasibility and feasibility levels. The studies will include legal, technical, socioeconomic, economic-financial, value for money, social and, environmental and fiscal affordability assessments. Additionally, a market sounding with financiers (national, international and MDBs) and investors will be done to ensure the bankability of the project. Furthermore, the component will finance consulting services to produce the documentation necessary for the structuring of the contracts and tender processes, including the design of the legal, technical and financial instruments of the PPP transaction model, necessary for the bidding, awarding, contracting and financial closure of the selected PPP projects. This component will also finance consulting services to support public agencies during the bidding, contracting and financial closing of the prioritized project. The execution of this component will be consistent with the recommendations of the component 1 as the government will be able to specify, in the project documentation, the obligation of the winning bidder to return the costs associated with the preparation of the project to the Project Preparation Facility, as designed in the regulatory environment of Costa Rica.

III.4. The total cost of this non-reimbursable TC has been estimated at USD 1,200,000, which will be financed with resources from the Bank's Ordinary Capital (OC Strategic Development Program, Window 2).

Indicative Budget

Activity/Component	Description	IDB/Fund Funding (\$US)	Counterpart Funding (\$US)	Total Funding (\$US)
Component 1	Upstream interventions: Technical support to the implementation of a PPF.	50,000	0	50,000
Component 2	Screening and prioritization of PPP projects	50,000	0	50,000
Component 3	Feasibility and structuring of one PPP project	1,100,000	0	1,100,000
Total		US\$ 1,200,0000	US\$ 0	US\$ 1,200,000

III.5. The intellectual property rights that may be generated from this TC (such as copyright on the studies and materials produced) belong to the Bank and therefore the Bank may copy, reproduce, distribute, disseminate, publish and/or display the Materials in any format or medium currently known or to be developed, in any

publication, website, blog, catalog, event, exhibition, archive, as well as any IDB material.

- III.6. The IDB will grant the beneficiary a non-exclusive, worldwide, royalty-free license, perpetual and irrevocable, on the products produced in the context of the Cooperation ("Materials"), for unlimited use, in any format or medium currently known or developed to follow. The license includes the right to create derivative works, including for commercial purposes, and to sublicense it, including on the same terms.

IV. Executing agency and execution structure

- IV.1. In line with Annex 10 of the Operational Guidelines for Technical Cooperation Products (GN-2629-1 and OP-619-4), and as requested by the Beneficiary in its request letter, this TC will be executed by the IDB through its Public-Private Partnerships team, and therefore acts as UDR for consulting contracts.
- IV.2. In response to the beneficiary's requirement, execution by the IDB is justified by the experience in structuring PPPs and the opportunity to optimize the impact of the TC in the context of applying international best practices to the PPP process implied by the activities of this cooperation.
- IV.3. All activities to be executed under this TC have been included in the Procurement Plan (see Annex IV). The Bank will follow its policies and guidelines for contracting consultancies: (i) individual consultants will be contracted with the AM-650 guideline; both (ii) consulting firms providing consulting services and (iii) other services than consulting will be hired in accordance with the new IDB "Corporate Procurement Policy" (GN-2303-33) and its guidelines.
- IV.4. Reporting, Monitoring and Evaluation: The progress of this TC will be monitored through its expected results, as defined in the Results Matrix (RM). The RM also defines the indicators and their expected schedule. The team will be responsible for monitoring the evolution of these indicators and reporting their physical and financial progress by Product and Component. The required information will be recorded in Convergence. The annual reports to be submitted will describe progress towards completion of each of the TC Components over their duration, presenting the degree of achievement of output indicators and progress towards MR results as recorded in the updated Acquisition Plan. It will also provide relevant information to identify areas requiring improvement and lessons learned.

V. Major issues

- V.1. This TC will be executed by the Bank in close collaboration with the Republic of Costa Rica. The following risks have been identified:
- V.1.1. A change in government in 2026 may generate an impact in the execution of the second component of the TC, causing delays on the necessary approval to launch the tender process or even its cancellation.

- V.1.2. Delays or rejection of the new PPP bill by the congress (supported with another the TC RG-4199) may have a negative impact on the creation of the PPP-PPF.

VI. Exceptions to Bank policy

- VI.1. There are no exceptions to the Bank's policies.

VII. Environmental and Social Aspects

- VII.1. This Technical Cooperation is intended to finance upstream interventions, pre-feasibility and feasibility studies of specific investment projects and the environmental and social studies associated with them; therefore, the terms of reference and products of this TC are consistent with the applicable requirements of the Bank's Environmental and Social Policy Framework (ESPF).

Required Annexes:

[Request from the Client_6348.pdf](#)

[Results Matrix_88176.pdf](#)

[Terms of Reference_65094.pdf](#)

[Procurement Plan_28380.pdf](#)