SIMULTANEOUS DISCLOSURE

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COSTA RICA

CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES

(CR-X1010)

LOAN PROPOSAL

This document was prepared by the project team consisting of: Juan José Durante (IFD/CMF), Project Team Leader; Guillermo Collich (IFD/CMF), Alternate Project Team Leader; Andrea Terán Barrientos (IFD/CMF); Juan Martínez Álvarez (IFD/CMF); Annabella Gaggero (IFD/CMF); Tsuneki Hori (INE/RND); María Cristina Landázuri (LEG/SGO); Andrés Suarez (FMP/CCR); and Willy Bendix (FMP/CCR).

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   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35406452
7. IDB. Indicators of Disaster Risk and Risk Management: Costa Rica. Latin America and Caribbean Program. Technical note IDB-TN-169. September 2010
   http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=35160023
8. IDB. Catastrophe Risk Profile: Costa Rica. April 2009
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Abbreviations

ARL	Automatic Redirection List
CAT DDO	World Bank Loan with Catastrophe Deferred Drawdown Option
CCF	Contingent Credit Facility for Natural Disaster Emergencies
CNDRMP	Comprehensive Natural Disaster Risk Management Program
CNE	Comisión Nacional de Prevención de Riesgos y Atención de Emergencias [National Commission on Risk Prevention and Emergency Services]
DRM	Disaster Risk Management
FFF	Flexible Financing Facility
IMF	International Monetary Fund
OC	Ordinary Capital
PNGR	Plan Nacional para la Gestión del Riesgo 2010-2015 [National Risk Management Plan]
RMI	Risk Management Index
WAL	Weighted average life

PROJECT SUMMARY

COSTA RICA
CONTINGENT LOAN FOR NATURAL DISASTER EMERGENCIES
(CR-X1010)

Financial Terms and Conditions[*]			
		Flexible Financing Facility (FFF)**	
Borrower: Republic of Costa Rica		Amortization period:	25 years[i]
		Weighted average life (WAL)	15.25[ii]
Executing Agency: Borrower, through its Ministry of Finance		Grace period:	5.5 years[iii]
		Disbursement period (availability):	5 years[iv]
Source	**Amount**	Interest rate:	LIBOR-based
IDB (OC)	US$100 million	Inspection and supervision fee:	***
Total	US$100 million	Credit fee:	***
		Currency:	US$

Project Overview
Project objective and description: The objective of the operation is to cushion the impact that a severe or catastrophic natural disaster could have on the country's public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type (paragraph 1.20). **Special contractual conditions: 1. Precedent to the first disbursement:** (i) the Bank will verify that an eligible event, as defined in the loan contract, has occurred; (ii) the Comprehensive Natural Disaster Risk Management Program (CNDRMP), previously agreed upon with the Bank, will be in execution in a manner satisfactory to the Bank; and (iii) the borrower will submit, within 90 days of the occurrence of the eligible event, a disbursement request indicating the amount required, and whether or not the disbursement is being requested totally or in part from the loan proceeds identified in the Automatic Redirection List (ARL); in the case of ARL loans, there should be an indication from which loan or loans the resources are to be disbursed (paragraph 2.4). **2. Eligibility**: (i) submission of the Operating Regulations, including: (a) the applicable operating processes; and (b) the CNDRMP, in terms acceptable to the Bank (paragraphs 2.8 and 3.1). **3. Disbursements:** (i) the maximum amount of each disbursement will be the lesser of the following: (a) the available balance without disbursing the financing; and (b) the maximum disbursement established in the loan contract for the type, location, and intensity of the eligible event (paragraph 2.6); and (ii) the Bank will recognize as justified expenditures up to 100% of the amount of eligible expenditures actually incurred and paid by the borrower, starting with the day the eligible event occurred, for a period of up to 180 days immediately thereafter (paragraph 2.9).
Exceptions to Bank policies: N/A
Project consistent with country strategy: Yes [X] No [ ]
Project qualifies as: SEQ [ ] PTI [ ] Sector [ ] Geographic [ ] Headcount [ ]

[*] Financing terms and conditions of the contingent loan pursuant to the provisions of the Contingent Credit Facility for Natural Disaster Emergencies (document GN-2502-2) approved by the Board of Executive Directors by Resolution 27/09, and its modifications in document GN-2667-2.

[**] Under the FFF, the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions, subject in all cases to the final amortization date and original weighted average life (WAL). In considering such requests, the Bank will take market conditions into account, along with operational and risk management considerations.

[i] The amortization periods are calculated as of the date of each loan disbursement.

[ii] WAL is calculated as of the date of each loan disbursement.

[iii] Grace periods are calculated as of the date of each loan disbursement.

[iv] The period during which resources will be available (disbursement period) is extendable by five additional years at the discretion of the Bank, upon the request of the borrower.

[***] The credit fee and the 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 provisions of the Bank's policy on lending rate methodology for Ordinary Capital loans. In no case will the credit fee exceed 0.75% or the inspection and supervision fee exceed 1% of the amount of each disbursement of resources not included in the ARL. When loan proceeds are disbursed other those on the ARL, the credit fee shall accrue beginning 60 days after the date on which the contingent loan contract is signed up to the date of the corresponding disbursement(s). In no case will the credit fee or the inspection and supervision fee be charged under loans on the ARL and again under the contingent loan. If, during the disbursement period, the amount of the balances available in the ARL loans falls below the amount of the balance pending disbursement under the contingent loan, the credit fee and the inspection and supervision fee will be charged on the difference between the two amounts, for the period during which they remain uncovered and undisbursed.

I. DESCRIPTION AND RESULTS MONITORING

A. Frame of reference, problem addressed, and rationale

1.1 This operation will be financed with resources from the Contingent Credit Facility for Natural Disaster Emergencies (CCF), as set forth in document GN-2502-2 and amended by document GN-2667-2. The CCF, which enables the structuring of contingent loans such as the one considered here, is one of the Bank's main tools for helping countries improve their natural disaster financial risk management.

1. Country's vulnerability to natural disasters and climate change

1.2 The countries of Central America and the Caribbean are exposed with increasing frequency to severely intense natural disasters. Costa Rica, due to its geographic location, is exposed to a high number of natural threats—both meteorological and geophysical. Particularly notable among such events are earthquakes, floods, volcanic eruptions, and tropical storms. Costa Rica is the second most vulnerable country in the world, based on land surface area, with regard to multiple threats, with 36.8% of its total area vulnerable to three or more types of threats. This situation, added to a variety of social and economic factors, combined with demographic concentration and population growth, makes Costa Rica highly vulnerable to natural disasters. Some 80% of the country's GDP comes from areas at high risk from multiple dangers.[1]

1.3 Natural disasters occur with great frequency in Costa Rica. In the last 40 years alone, the country has experienced 53 natural disasters of various types, and has suffered economic losses totaling approximately US$1.112 billion, affecting more than 1.67 million people.[2] The most devastating events in terms of the resulting economic losses were from flooding caused by intense rains in February 1996, which resulted in damage totaling US$250 million. Ranking second was the Cinchona earthquake of 2009, which led to losses of US$200 million, with tropical storm Cesar-Douglas in 1996 also causing losses of US$200 million. In terms of the events that affected the largest percentage of the population, tropical storm Cesar-Douglas, which affected 15% of the country's population (500,000 people) and tropical storm Lilly, which affected 6% of the population (216,000 people)—both in 1996—rank at the top of the list.

2. Financial vulnerability to severe and catastrophic natural disasters

1.4 The general economic outlook for Costa Rica is one of stability. In 2011, the economy grew at an annual rate of 4.2%, lower than the real growth projections of 4.5% for the current year and below the average annual growth rate of 4.7% for the 2005-2011 period.[3] At the same time, the central government fiscal deficit for 2011 amounted to 4.1% of GDP. The majority of the central government's fiscal

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1 Natural Disasters Hotspots: A Global Risk Analysis, World Bank, 2005.

2 Emergency Event Database (EMDAT); www.emdat.be. Catholic University of Leuven (Brussels).

3 International Monetary Fund (IMF), April 2012.

imbalance was covered by domestic borrowing—one factor responsible for the overall public debt balance in 2011 being 46.6% of GDP.

1.5 Although the country's macroeconomic situation is considered stable, the potential economic impact from a possible extreme natural disaster is one of its main contingent liabilities, with the potential to throw public finances off balance.[4] According to a technical study conducted by the Bank analyzing Costa Rica's economic capacity to deal with catastrophic events, one such extreme event with a recurrence interval of approximately 100 years could cause losses in the country equivalent to 6.95% of GDP,[5] of which the public sector would assume 4.7% of GDP.[6]

1.6 Thus, it is clearly important for the country to work toward developing a comprehensive strategy for dealing with the financial risk from natural disasters, in order to provide effective financial coverage to address in an appropriate and timely way, at a minimum, the emergency phase in the event of a catastrophic natural disaster.[7]

3. Diagnostic assessment of natural disaster risk management in Costa Rica

1.7 In recent decades, the country has made major progress on the legal and institutional framework for Disaster Risk Management (DRM). The country currently has national laws that incorporate DRM in relevant areas. These include the standard on environmental protection and local land use planning and the National Emergency Law (law 8488), which was updated and modernized in 2006 and assigns institutional responsibilities for emergency management and allocates the resources needed for its implementation. The Comisión Nacional de Prevención de Riesgos y Atención de Emergencias [National Commission on Risk Prevention and Emergency Services] (CNE) is the national government body charged with preparing for, and dealing with, emergencies, as well as with providing interagency coordination for disaster risk reduction efforts.

1.8 Despite the measures the country has taken with regard to DRM, the Bank's Risk Management Index (RMI), which measures risk management performance at the national level,[8] rated Costa Rica as "incipient"[9] in this regard in 2008. Between

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4 According to the IMF, the risks with regard to medium-term macroeconomic outlook are trending downward. Risks identified include the limited capacity of fiscal policy to respond to adverse shocks. Staff Report for the 2011 Article IV Consultation. 11 May 2011. (See http://www.imf.org/external/pubs/ft/scr/2011/cr11161.pdf).

5 Estimates made based on the country's 2008 GDP.

6 Costa Rica: Indicadores de Riesgo de Desastres y de Gestión de Riesgos (IDB, 2010).

7 Events with a recurrence interval of 40 to 100 years that affect more than 6.5% of the country's population.

8 The RMI is an index developed by the Bank, which to date has been applied in 22 countries in Latin America and the Caribbean.

1995 and 2008 the country's RMI rating fell from 45.15 (level 3) in 1995 to 35.43 (level 2) in 2008.[10]

1.9 In January 2010, the National Risk Management Plan 2010-2015 (PNGR), prepared by the CNE, was approved. The plan serves as a strategic planning instrument, with the purpose of implementing the National DRM Policy, through: (i) coordinating processes; (ii) defining institutional competencies; (iii) allocating resources; and (iv) establishing verification and control mechanisms. The PNGR identifies seven priority thematic areas and proposes actions and specific targets for each one: (i) reducing poverty and building resilience; (ii) establishing regulatory mechanisms and instruments for risk management; (iii) furthering development and investment in public infrastructure; (iv) fostering participation and deconcentration for local risk management; (v) developing and disseminating knowledge and applying appropriate technologies; (vi) developing preparedness and responses for dealing with emergency situations and disasters; and (vii) establishing an approach for recovery and reconstruction in the wake of disasters.[11] Under this framework, the main advances and challenges facing Costa Rica regarding key DRM issues are:

a. **Risk identification:** In order to build scientific knowledge for identifying and measuring natural disaster risk, Costa Rica has been devoting economic resources to assisting the country's universities and technical institutes in acquiring the necessary resources and strengthening research for monitoring the main threats facing Costa Rica. In addition, the Government of Costa Rica is promoting the development of stochastic models to aid in analyzing natural threats that face the nation, and promoting their use among public institutions, as a means of providing guidance on issues such as land use planning and public investment, and in preparing responses to potential disasters. Nevertheless, the country needs to intensify its efforts to improve risk management training and education at the national level, i.e., among the general population, so that it can recognize and understand the risks to which the country is exposed. The gaps in these areas are reflected in the level-2 (incipient) RMI_{RI} rating in 2008 regarding risk management training and education—this despite having been rated at level 3 (significant) in 1995.

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[9] In terms of the performance of the 22 countries of Latin America and the Caribbean in which this indicator has been measured, Colombia, Barbados, and Jamaica show relatively positive levels of performance, with the highest ratings recorded (between 41 and 50). Dominican Republic, Honduras, Ecuador, and Costa Rica are rated at the "incipient" level in terms of performance (between 21 and 40). See Comparative regional report.

[10] The RMI uses a scale from 0 (minimum) to 100 (maximum). The levels of performance defined by the RMI are: level 1 (low, 0 to 20); level 2 (incipient, 21 to 40); level 3 (significant, 41 to 60); level 4 (outstanding, 61 to 80); and level 5 (optimal, 81 to 100).

[11] The seven priority thematic areas of the 2010-2015 PNGR are dealt with in the Comprehensive Natural Disaster Risk Management Plan (CNDRMP); the plan is one of the eligibility conditions for the country to access resources under this operation. See CNDRMP.

b. **Risk reduction:** This area involves promoting and implementing structural and nonstructural measures for risk prevention and mitigation. In the National Development Plan, the country has renewed efforts aimed at risk prevention, with a focus on the municipal level, through the incorporation of risk management in urban development plans, so as to ensure that National Land Management Policy is consistent with the country's DRM policy. It also highlights the need for training and the transfer of information on DRM at the municipal level, along with providing municipalities advice on updating their regulatory plans. However, the Costa Rican government needs to make further specific efforts to improve housing and relocate settlements situated in high-risk areas; and reduce the vulnerability of public and private assets. This situation is reflected in the RMI_{RR} values for those two areas, where values declined between 1995 and 2008, from level 4 to level 1 for the former, and from level 3 to level 2 for the latter.

c. **Disaster management:** Disaster management involves responding appropriately and implementing the necessary post-disaster recovery measures, which depends on the level of preparedness of both institutions and the community. The country has been implementing the following initiatives: (i) creating and linking coordinating entities established under law, such as regional, municipal, and local emergency committees, technical and sector advisory committees, thematic and territorial networks, and an Emergency Operations Center—all of which are equipped to function as need arises, in case of an emergency; (ii) strengthening emergency response capabilities; and (iii) strengthening the CNE through by redesigning its organizational structure, slated to occur in the second half of 2012. Despite these efforts, there continue to be other areas of disaster management in need of strengthening, such as: community preparedness and training to enhance local emergency response capacities; simulation and testing of interagency response; and planning activities for rehabilitation and reconstruction. The needs in these areas of disaster management are reflected in the RMI_{DM} indicator, a measure of the capacity to handle disasters, which fell from level 4 in 1995 to level 2 in 2008.

d. **Financial risk management:** The country has focused largely on ex post financing of natural disaster emergencies, rather than on ex ante financial management of these risks. Costa Rica has a National Emergency Fund, created to serve the needs of, and deal with, emergency situations, while at the same time promoting risk prevention and mitigation. Thus, the Fund's resources are devoted primarily to financing activities associated with the three phases of dealing with emergencies set forth in its legal framework: response, rehabilitation, and reconstruction. Given its financial and operational structure, the fund is used essentially as a mechanism for channeling resources when emergencies occur, and less as an instrument for reducing risk by accumulating sufficient resources so that they can be deployed when needed. Thus, at present, following a disaster, the government essentially redirects State institution resources originally intended for other purposes, and transfers funds on an extraordinary basis to finance the needs related to such an event. At the same time, the Costa Rican government has begun to establish a structure for ex ante financial coverage to address emergencies through a loan contract with the World Bank (CAT DDO, 2008, US$65 million), along with this IDB contingent loan. It is nevertheless important that the country adopt a comprehensive financial risk management approach to using these instruments. By developing a comprehensive financial risk management strategy, it will be possible to determine the level of ex ante coverage needed to finance emergency expenditures, as well as the appropriate financing instruments for this purpose (budgetary provisions, emergency reserve funds, contingent credit lines, risk transfer instruments, etc.). Additional measures, such as strengthening government policies for obtaining insurance for infrastructure and public investments, also need to be adopted. Weaknesses identified as hindering progress in this area include: (i) a lack of clarity in defining competencies for financial risk management; (ii) limited institutional capacity dedicated to this issue; (iii) lack of appropriate financing instruments for reducing and/or transferring risks; and (iv) problems in accessing the information necessary for scaling and structuring the financial coverage needed by the country.

4. Operation's relation to the Bank's country and sector strategy

1.10 **Bank actions and support in the sector**. The Bank has been providing Costa Rica with DRM support, specifically with regard to risk identification. This assistance is reflected in the following technical cooperation programs:

a. **Disaster risk assessment:** Technical cooperation operation RG-T1587, executed in conjunction with the World Bank,[12] aimed to estimate, based on a probabilistic risk assessment, the toll of disasters in the six Central American countries. Outputs from the technical cooperation operation included the development of a Geographic Information System (GIS) software platform in each beneficiary country, including Costa Rica, and preparation of national studies to provide an estimate based on analyzing risk probability. For Costa Rica, the project included training workshops, development of the GIS platform for establishing a catastrophic risk profile (known in Costa Rica by its acronym SIG-CAPRA) and other technical reports.[13]

b. **Central American System for Disaster Management (SMIT):** Through technical cooperation operation RG-T1518, financed with resources from the Facility for the Promotion of Regional Public Goods, a regional system for communicating territorial information was developed, incorporating disaster risk reduction as a cross-cutting element for development. The beneficiaries of this effort were the member countries of the Mesoamerica Project, including

[12] The IDB finances activities in four countries, and the World Bank in the two other countries.

[13] Catastrophe Risk Profile and Risk Management Indicators for Costa Rica.

Costa Rica. The project, completed in 2011, produced three technical outputs: (i) a diagnostic assessment and analysis of the gaps in the information management process; (ii) standards and protocol for exchange of information between the participating countries; and (iii) a pilot computerized territorial information system.

1.11 The Bank, for its part, has been helping facilitate participation of Costa Rican authorities in the Regional Policy Dialogue on DRM. Both the Ministry of Environment, Energy, and Telecommunications and the CNE took part in the Regional Policy Dialogue, held in June of 2009 and organized by the IDB's Sustainable Energy, Climate Change, and Disaster Risk Management Network. The Dialogue included an analysis of the task of integrating climate change and DRM issues in national development policies.

1.12 **Strategic alignment of the operation.** The proposed operation is aligned with the Bank's Country Strategy with Costa Rica 2011-2014 (document GN-2627), where it falls under the area of natural disaster risks, as one of the mitigation measures for reducing the impact of such risks on the development of productive infrastructure, particularly as related to transportation, one of the pillars of the Bank's strategy. The operation is also included in the Operational Program Report 2012 (document GN-2661-4, Annex II, Costa Rica, Country Program Document 2012). Moreover, this operation is consistent with the 2010-2015 financing objectives of the Ninth General Increase of the Resources of the Bank (document AB-2764), under the categories of: (i) lending for small and vulnerable countries; and (ii) lending to support climate change initiatives.

5. Bank programs for financing and transferring natural disaster risk

1.13 Since 2005, the Bank has been working on developing a comprehensive disaster risk management strategy within the framework of the Action Plan for Improving Disaster Risk Management 2005-2008 (document GN-2339-1). Thus, in 2008, the Bank approved and began operational development of the Integrated Disaster Risk Management and Finance Approach (document GN-2354-7) document. This approach includes a range of mechanisms and instruments to improve planning and financial coverage of natural disaster risks.

1.14 One of the specific objectives of this finance approach is to support the Bank's borrowing member countries in designing and implementing programs to finance and transfer the financial risks arising from disasters that the public sector would likely have to address in cases of severe or catastrophic events, through a combination of financial instruments that provide broader, more stable, more efficient coverage of the risk of extraordinary financial outlays.

1.15 The programs for natural disaster financing and risk transfer proposed by the Bank in the framework of its finance approach assume that, because of budgetary and financial constraints, no single instrument can effectively cover all levels of risk. Thus, a variety of instruments capable of effectively covering specific areas of risk will inevitably have to be used, based on the probability of occurrence and the magnitude of the disasters (as measured by the number of people affected and the amount of extraordinary public spending required to deal with the emergency).[14]

1.16 Given the situation outlined above, it is recommended that the programs for natural disaster financing and risk transfer draw on directly budgeted resources, or on specially created reserve funds or multiyear budget provisions, to cover public outlays resulting from disasters that occur frequently and are less severe. At the same time, for disasters that have a lower probability of occurring but are of a severe or catastrophic nature, which generally require much higher extraordinary expenditures, it is economically efficient to finance these through long-term contingent debt instruments and risk-transfer instruments such as insurance and/or CAT bonds (catastrophe bonds). Lastly, these programs recognize that there are events for which ex ante financial coverage is fiscally unsustainable, since despite the fact that they recur very infrequently, the losses they produce are extremely high, as is the corresponding cost of covering them on an ex ante basis.[15]

1.17 **Potential benefits.** The potential benefits of focusing on this type of ex ante financing program for the emergency phase are greater than the potential costs. The programs for natural disaster financing and risk transfer make it possible for countries to obtain more cost-efficient coverage. Moreover, for economies with the ability to generate the necessary funds in a timely manner, this reduces the liquidity gap that governments generally face during such events, due to the combination of increased expenditures, lower revenues, and incremental restrictions on accessing—and on the cost of—loans.

1.18 Thus, providing ex ante financial coverage for large-scale disasters partially reduces the risk of even worse scenarios, in terms of a disaster's impact on public accounts, since the financing is in place to deal with the costs of emergency response. This has been verified by Bank studies,[16] which confirm that having the financial coverage needed to ensure sufficient liquidity in case of severe events guarantees greater stability in long-term economic growth, compared to a scenario in which this type of coverage is not in place, since the resources are then readily available to meet the requirements of an emergency. This arrangement has the additional advantage of eliminating the need to finance extraordinary expenditures from public accounts not budgeted to accommodate such needs.

1.19 As part of the studies cited above, there was also an analysis of the amount of international assistance provided between 1960 and 2002 to Latin American countries that experienced disasters entailing significant economic losses. Although international aid did reach the countries, it has been insufficient, covering on average only 8.6% of the losses, with only 5% to 10% of this assistance provided in liquid resources. These shortfalls in international assistance have been accentuated

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[14] IDB. Natural Disasters Financial Risk Management: Technical and Policy Underpinnings for the Use of Disaster-Linked Financial Instruments in Latin America and the Caribbean, IDB-TN-175 (April 2010).

[15] World Bank. The Management of Catastrophe Risk Using Pooled Insurance Structures. Pollner (2001).

[16] IDB. Disaster Risk Management. Freeman, Mechler, et al. (2002), inter alia.

in recent years, due to the increase in the number of catastrophic events and the global economic situation. This brings into even starker relief the need for more and better financial coverage that allows countries to ensure that they will be able to meet their needs in case of natural disaster emergencies, without having to resort to international aid, given that experience indicates that the scale and availability of such assistance is uncertain. The most recent reviews of figures on humanitarian aid indicate that the actual levels of such aid have remained relatively constant, with no major variations, and that this type of assistance is expected to trend downwards, if only because of the number, severity, and impact of the events and the increased fiscal constraints prevalent throughout the world.

B. Objectives and expected outcomes

1.20 The objective of the operation is to cushion the impact that a severe or catastrophic disaster could have on the country's public finances, by increasing the availability, stability and efficiency of contingent financing to deal with emergencies caused by events of this type.

1.21 The specific objective of the operation is to provide more rapid access to liquid resources and greater efficiency in ex ante financial coverage, so that countries can deal, on a timely basis, with the extraordinary expenditures that could arise in emergencies brought about by severe or catastrophic natural disasters.

C. Key results indicators

1.22 In terms of output, this operation will provide Costa Rica contingent financing to deal with extraordinary public expenditures during emergencies brought about by severe or catastrophic natural disasters. Consistent with the operation's specific objective, the expected outcomes are: (i) an increase in the contingent financial coverage available to the country for defraying extraordinary public expenditures caused by emergencies brought on by severe or catastrophic natural disasters; and (ii) this financial coverage will be efficient. In order to verify the efficiency of the financial coverage of the loan, there is expected to be annual monitoring of changes in the differential between the financial cost of the Bank loan and Costa Rica's long-term sovereign foreign trade debt.

1.23 Given the contingent nature of the operation, disbursements will only be made upon verification that an eligible event has occurred during the loan's availability period. Once verified, the availability and efficiency of the resources from this operation will be measured based on: (i) speed of accessing the resources; and (ii) lower financing cost per unit of extraordinary emergency expenditure financed with the loan's resources.

1.24 The indicators for making these measurements will be: (i) number of days between the date of the country's disbursement request to the Bank and the date on which the loan proceeds were made available to the borrower; and (ii) the financial cost of the loan proceeds, compared to the financial cost of Costa Rica's long-term foreign trade debt at the time the loan disbursement was made.[17]

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

2.1 This operation will be carried out through an investment loan to be granted through the Contingent Credit Facility for Natural Disaster Emergencies (CCF) established by the Bank (documents GN-2502-2 and GN-2667-2).

2.2 The main operational and financial characteristics of the operation are: (i) the borrower will be the Republic of Costa Rica, and the executing agency will be its Ministry of Finance; (ii) financing will be for a maximum of US$100 million (see Analysis for scaling the loan); (iii) the resources will be drawn either from resources allocated for this operation or from available, undisbursed balances of loans already approved and identified in the ARL;[18] (iv) disbursements will be available for a period of five years, extendable by an additional five years at the request of the borrower;[19] and (v) all disbursements will be made from the Bank's Ordinary Capital.

2.3 Contingent loans granted under the CCF have specific characteristics designed primarily to: (i) provide immediate access to liquid financial resources to deal in a timely way with expenses associated with emergencies; and (ii) provide financing under conditions suitable to assisting the country at a critical time, involving an emergency caused by a severe or catastrophic event, when public finances are impacted, given the need for additional resources to defray extraordinary expenditures and the unforeseen drop in revenues as a result of reduced economic activity. The main specific characteristics of loans granted through the CCF are:

a. The amortization period is 25 years, calculated from the date of each disbursement and the grace period is 5.5 years, also calculated from the date of each disbursement.

b. The period during which the resources (disbursements) are available is extendable at the Bank's discretion for up to five additional years at the borrower's request. In the event that such an extension is made, the credit fee and the inspection and supervision fee will be calculated as of the date on which the extension enters into force.

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17 The comparison is based on the interest rate for resources provided under this operation in force at the time each disbursement is made, compared to the long-term interest rate on Costa Rica's sovereign foreign trade debt in international secondary markets as of the same date.

18 The ARL includes the IDB loans to Costa Rica in force and with available balances for disbursements, whose remaining balances can be redirected automatically in case of an event.

19 Provided that the period of availability, or extensions thereto, does not exceed the CNDRMP execution period.

c. In all matters related to procurement, the standards set forth in the document establishing the CCF (document GN-2502-2) shall govern. These include application of national legislation on the procurement of goods and the contracting of works and services.

2.4 **Resource availability.** Disbursements may be made from this loan when an eligible event occurs during the loan's disbursement period (period of resource availability). **As a condition precedent to the first disbursement: (i) the Bank will verify that an eligible event, as defined in the loan contract, has occurred; (ii) the Comprehensive Natural Disaster Risk Management Program (CNDRMP) previously agreed upon with the Bank will be in execution in a manner satisfactory to the Bank; and (iii) the borrower will submit, within 90 days of the occurrence of the eligible event, a disbursement request indicating the amount required and whether or not the disbursement is being requested totally or in part from loan proceeds identified in the ARL; in the case of ARL loans, there should be an indication from which loan or loans the resources are to be disbursed.**

2.5 **Eligible events.** These are events that meet the parameters of type, location, and intensity agreed upon with the borrower. This loan is expected to provide coverage for earthquakes, floods, and hurricanes (see Eligible Events). At the borrower's request, the future possibility of including coverage for volcanic eruptions will be analyzed. To this end, a joint technical viability study will be conducted with the government to develop the parameters to be included to trigger such coverage.

2.6 **Determination of eligibility of events and maximum disbursement amount per event.** A natural disaster may only be considered an eligible event for purposes of actual disbursement of funds under this operation once the Bank has verified that an event meeting the contractually agreed parameters of type, location, and intensity has occurred. The maximum disbursement amount for each eligible event will be the lesser of the following: (i) the available undisbursed balance of this contingent loan; and (ii) the maximum amount established for the type, location, and intensity of the event declared eligible. If the event is not eligible, no disbursement may be made from the loan proceeds.

2.7 The loan contract will specify the events eligible for coverage, all specific matters related to the triggering of eligibility for disbursements, and the methodology for calculating the maximum amount that may be disbursed based on the intensity of each eligible event.

2.8 **Comprehensive Natural Disaster Risk Management Program (CNDRMP).** The CNDRMP is a program of the Government of Costa Rica. Its general objective is to formalize with the Bank the country's proactive commitment to take concrete steps to effectively develop comprehensive public management of risks from natural disasters. The CNDRMP includes activities grouped according to the following strategic areas agreed upon with the country: (i) risk analysis; (ii) risk reduction; (iii) disaster financial risk management; and (iv) emergency response preparedness.

The existence of the CNDRMP is a condition for the borrower to be eligible to receive resources from this operation. The CNDRMP ensures that any Bank interventions will be consistent with Bank policies on disaster risk management, which provide for a comprehensive risk management approach and encourage ex ante preventive actions and measures.

2.9 The resources from this operation will be used exclusively to address extraordinary public expenditures incurred during emergencies caused by eligible natural disasters. To be recognized as acceptable to the Bank, these expenditures must be incurred and paid within 180 days immediately following the date of the start of the eligible event. The types of expenditures that are to be considered eligible will be broad, and will be limited only by a negative list of expenditures, which will be part of the loan contract.

2.10 Some of the types of expenditures that could be considered eligible include: (i) emergency medical equipment; (ii) vaccines and medications; (iii) facilities and equipment for temporary shelters; (iv) food for affected populations; (v) costs associated with emergency personnel needed to assist victims; (vi) short-term renting of equipment and facilities for power, transportation, and communications, and for warehousing space; and (vii) temporary rehabilitation of infrastructure and measures need to restore basic services immediately after the disaster.

B. Main risks and mitigation measures

2.11 **Environmental and social risks.** Pursuant to the provisions of directive B.13 of the Environment and Safeguards Compliance Policy (document GN-2208-20 and Operational Policy OP-703), this operation does not require classification. Since the resources which could ultimately be disbursed under this loan may only be used to finance extraordinary public expenditures caused by an emergency, and given that the Ministry of Finance, as executing agency, ensures compliance with the country's social and environmental laws in using such resources, no adverse environmental or social impacts are expected. A negative list of the types of expenditures that may not be financed with resources from this loan will be included in the contract.

2.12 **Risk of errors in verifying eligible expenditures.** There is a risk that certain expenditures financed with loan proceeds may not meet the contractually stipulated eligibility criteria, which would prevent the Bank from accepting them. Moreover, pursuant to the provisions of the document establishing the CCF (document GN-2502-2), the Bank reserves the right, if it deems such action necessary, to conduct audits of the expenditures financed with the loan proceeds. The fact that the Ministry of Finance has experience with the Bank in disbursements for policy-based loans—similar, in terms of fiduciary safeguards, to those of this facility—reduces the likelihood of this risk materializing (see Annex III).

2.13 **Risk that eligibility for loan disbursements could be suspended.** There is the possibility that the Bank might find performance, in execution of the CNDRMP, inadequate during the loan's disbursement period. In such a case, the Bank could suspend the eligibility for loan disbursements under this operation unless the country, in a timely manner, takes the steps deemed necessary by the Bank to remedy the situation. To mitigate this risk, the Bank will carry out periodic monitoring, and an annual evaluation, of progress made in executing the CNDRMP. If, based on these evaluations, the Bank determines that the CNDRMP is not being executed satisfactorily, the borrower will be notified as to the specific measures that would need to be implemented, within a period of no more than 90 days, calculated from the date on which the notification was issued, in order to remain eligible to receive disbursements under this operation. Only if, after the allotted term, the Bank finds that the recommended remediation measures have not been completely and appropriately implemented, may the Bank, through formal notification to the borrower, to suspend the borrower's eligibility to receive loan disbursements until the shortcomings at issue are remedied. The risk that eligibility to receive disbursements will be suspended during the period in which resources are available is considered to be low, since the country has given, and continues to give, clear signals as to the strength of its commitment to develop and implement a comprehensive disaster risk management system.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Main implementation arrangements

3.1 The borrower in this operation will be the Republic of Costa Rica, and the executing agency will be the country's Ministry of Finance, with the participation of the CNE. **The applicable operating processes will be specified in the Operating Regulations, the submission of which in terms acceptable to the Bank is an eligibility condition for the borrower to receive resources under this operation.**

3.2 **Disbursement requests.** Requests for disbursement of loan proceeds will be submitted no more than 90 days after an eligible event has occurred, specifying the amounts being requested. In cases where the borrower chooses to use loan resources included in the ARL, the requests must specify the loans from which resources are to be taken and the specific amounts required from each one.

3.3 **Disbursement mechanism.** Each disbursement made under this loan will be carried out under the financial terms and conditions established for the loan, regardless of whether or not the disbursement is being requested totally or in part from the loans identified in the ARL. In the event that the borrower chooses to include, in a disbursement request, resources coming directly from the contingent loan, the Bank will charge the relevant credit fee, accrued retroactively beginning 60 days after the loan contract's effective date. This fee will be charged only on amounts disbursed directly from the loan.

3.4 The project will have a special account for disbursing resources, which will be administered by the Ministry of Finance. The borrower, through the Ministry of Finance, must justify the use of the resources disbursed, in the form of a written declaration of adequate use, to be submitted to the Bank within 365 calendar days after the starting date of the eligible event for which the Bank disbursed the resources in question.

3.5 **Eligible expenditures.** Resources disbursed under this loan may be used to finance extraordinary public expenditures during emergencies caused by eligible events, including the rehabilitation of vital services and the temporary rehabilitation of public infrastructure, provided that these expenditures meet the following requirements: (i) they are not explicitly included among the expenditures contractually excluded from the financing or on the negative list that is part of the loan contract; (ii) they are legal according to the laws of Costa Rica; (iii) they are directly related to the emergency caused by the natural disaster for which financing has been provided; and (iv) they consist of procurements and payments that are verifiable, documented, clearly recorded, and are considered appropriate in terms of amount and price. The Bank will recognize up to 100% of the amount of expenditures incurred and paid by the borrower as of the date on which the eligible event occurred, for a period of up to 180 calendar days immediately thereafter.

3.6 In all procurement-related matters, this operation will be governed by the standards set forth in the document establishing the CCF (document GN-2502-2). The borrower will abide by national laws regarding the procurement of goods and the contracting of works and services applicable to extraordinary fiscal expenditures in cases of natural disasters (see Annex III).

B. Monitoring and evaluation arrangements

3.7 **Annual monitoring of the CNDRMP.** As indicated in paragraph 2.8, during the loan's availability period, the Bank will carry out periodic monitoring of advances made in executing the CNDRMP to determine, based on the indicators established for this purpose, whether execution is proceeding satisfactorily. These evaluations will be conducted at least once a year. In the event that execution of the CNDRMP is found to be unsatisfactory, the Bank, after having exhausted the preventive remedies which, on a timely basis, it has recommended to the country, may notify Costa Rica that it is temporarily suspending its eligibility to receive loan disbursements until the country demonstrates, to the Bank's satisfaction, that the deficiencies in question have been remedied. Notwithstanding the foregoing, it should be noted that, pursuant to the provisions of the CCF (document GN-2502-2, paragraph 4.25), once the Bank has granted initial eligibility to receive disbursements under this loan, this eligibility shall remain in effect during the loan's disbursement period unless the Bank formally notifies the country that eligibility is being temporarily suspended.

3.8 **Monitoring and disbursements**. Within a period of no more than two years following each disbursement, the Bank, at its sole discretion and without cost to the borrower, may verify through independent external audits the propriety of the expenditures claimed as eligible. If, as a result of any such audits, the Bank determines that the disbursed funds were used to finance ineligible expenditures, it may demand that the borrower immediately rectify the situation or reimburse the amounts in question.

3.9 **Evaluation of the borrower.** Monitoring and evaluation of the operation will be conducted according to the provisions of the Monitoring and Evaluation Plan. The specific provisions regarding evaluation established for operations under the CCF (document GN-2502-2, paragraphs 4.27 and 4.28) will also be taken into account.

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	**Aligned**		
Lending Program	**(i) Lending to small and vulnerable countries, and (ii) Lending to support climate change initiatives, renewable energy and environmental sustainability.**		
Regional Development Goals	**(i) Countries with planning capacity in mitigation and adaptation of climate change.**		
Bank Output Contribution (as defined in Results Framework of IDB-9)	**(i) National frameworks for climate change mitigation supported.**		
2. Country Strategy Development Objectives	**Aligned**		
Country Strategy Results Matrix	**GN-2627**	**The intervention is not aligned with a specific objective of the Country Strategy Results Matrix.**	
Country Program Results Matrix	**GN-2661-4**	**The intervention is included in the 2012 Country Program Document.**	
Relevance of this project to country development challenges (If not aligned to country strategy or country program)			
II. Development Outcomes - Evaluability	Highly Evaluable	Weight	Maximum Score
	9.3		10
3. Evidence-based Assessment & Solution	**9.9**	**25%**	**10**
4. Ex ante Economic Analysis	**10.0**	**25%**	**10**
5. Monitoring and Evaluation	**7.3**	**25%**	**10**
6. Risks & Mitigation Monitoring Matrix	**10.0**	**25%**	**10**
Overall risks rate = magnitude of risks*likelihood	**Low**		
Environmental & social risk classification	**B.13**		
III. IDB´s Role - Additionality			
The project relies on the use of country systems (VPC/PDP criteria)	**Yes**	**Financial Management: Budget, and Accounting and Reporting.**	
The project uses another country system different from the ones above for implementing the program			
The IDB's involvement promotes improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality			
Labor			
Environment			
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			
The ex-post impact evaluation of the project will produce evidence to close knowledge gaps in the sector that were identified in the project document and/or in the evaluation plan.	**Yes**	**The ex-post evaluation will compare the disposition of ex-ante coverage versus no coverage available (cost of borrowing for the country at the time of disaster), upon the occurrence of a disaster. The non-availability of coverage will imply to look for other sources of funding, as emergency spending has to be done anyway. The advantage obtained by this comparison is that you can evaluate how the financial cost differentials of the country's debt with the Bank loan behave and also see how these differentials evolve before, during and after a disaster.**	

The project is a contingent loan for natural disaster emergencies in Costa Rica. Its purpose is to cushion the potential impact that severe or catastrophic natural disasters could have on the country's public finances, through increasing availability, stability and efficiency of contingent funding for emergencies caused by this kind of event. The project contributes to supporting small and vulnerable countries, and climate change initiatives, renewable energy and environmental sustainability. In terms of regional goals, the intervention contributes to the generation of a growing number of countries planning capacity in mitigating and adapting to climate change. It also contributes to the Bank's output "national frameworks for climate change mitigation supported". The project has been included in 2011 Country Program Document, and is not aligned with a specific objective of the Country Strategy Results Matrix.

The diagnosis clearly identifies, based on empirical evidence, the main problem and the factors that determine it. The logic of the proposed intervention is clear. Impact, outcomes and outputs indicators are SMART, with baselines, targets and sources of information. The project has an ex-ante cost effectiveness analysis and a monitoring and evaluation plan in accordance with the guidelines of the Bank and the characteristics of contingent projects for natural disaster emergencies. The evaluation seeks to compare, ex-post, the ex-ante availability of financial funding versus no coverage availability (cost of borrowing for the country at the time of disaster), upon the occurrence of a disaster.

Finally, the main risks are identified, and these are low.

RESULTS MATRIX

Project Objective:	The objective of the operation is to cushion the impact that a severe or catastrophic natural disaster could have on the country's public finances, by increasing the availability, stability, and efficiency of contingent financing to deal with emergencies caused by events of this type.

EXPECTED IMPACT

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/Means of verification	Remarks
		Value	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED IMPACT: The impact of a severe or catastrophic natural disaster on Costa Rica's public finances is cushioned.[1]													

EXPECTED OUTCOMES

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/Means of verification	Remarks
		Value`	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 1: Availability and stability: Increase in the country's contingent financial coverage for dealing with extraordinary public expenditures during severe and/or catastrophic natural disaster emergencies.													
Amount of contingent financial coverage available to the country	US$ millions	65	1	165	2	165	3	165	4	165	5	Costa Rican Ministry of Finance	The baseline considers contingent financing currently available to the country for dealing with disasters, corresponding to a CAT DDO-type loan from the World Bank.[2]

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[1] Given the particular characteristics of this operation, it was not possible to establish an appropriate indicator to measure the expected impact.

[2] Although this contingent financing was used in part in 2009 when the country was impacted by the Cinchona earthquake, the indicator's baseline is being maintained as the total amount approved by the World Bank, since it is a revolving loan (i.e., prepaid balances are available for new disbursements).

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/Means of verification	Remarks
		Value`	Year	Value	Year	Value	Year	Value	Year	Value	Year		
EXPECTED OUTCOME 2: Efficiency: Available coverage is efficient in terms of financing cost and rapid access to resources.													
Differential between the interest rate of the IDB loan and the interest rate of Costa Rica's long-term sovereign foreign trade debt.	Basis points	358	1	Rate differential	2	Rate differential	3	Rate differential	4	Equal to or greater than 100	5	IDB: Publication of the Finance Department, Bloomberg. Ministry of Finance: Bureau of Public Credit.	There will be monitoring of the financing cost of the IDB loan compared to Costa Rica's long-term sovereign foreign trade debt.
Speed of access to resources in case of an eligible event occurring.	Days	90	1	20	2	20	3	20	4	Maximum of 20	5	IDB: Finance Department. Ministry of Finance: Bureau of Public Credit.	The baseline consists of the average time normally required to launch a sovereign bond issue in U.S. dollars on the international market.

Indicators	Unit of measure	Baseline		Midterm measurements						Targets		Source/Means of verification	Remarks
		Value`	Year	Value	Year	Value	Year	Value	Year	Value	Year		
Cost of financing in case of an eligible event occurring.[3]	Basis points	N/A[4]	1	Cost differential	2	Cost differential	3	Cost differential	4	Reduction in the cost of financing extraordinary emergency expenditures through borrowing.	5	IDB: Publication "Spreads," Finance Department, Bloomberg. Ministry of Finance: Public finances information module.	Monitoring will be carried out to gauge the financing cost of the IDB loan as compared with Costa Rica's long-term sovereign foreign trade debt as of the end of the months immediately preceding and after an eligible event.

OUTPUTS

Output • Milestones	**Unit of measure**	**Baseline**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Target**
COMPONENT: Contingent financing by the Bank to deal with extraordinary public expenditures during severe and/or catastrophic natural disaster emergencies.							
• Available financial coverage	US$ millions	0	100	100	100	100	100

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[3] In the event that market information on the spread of Costa Rica's long-term sovereign trade debt is not available, the average spread for countries in the region with the same credit rating will be used. In this case, the source of information would be Bloomberg, and the project team would be responsible for determining the estimate.

[4] The baseline would be the cost differential based on the figure immediately prior to the occurrence of the eligible event as compared to the post-event figure.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country:	Costa Rica
Project number:	CR-X1010
Project name:	Contingent Loan for Natural Disaster Emergencies
Executing agency:	Ministry of Finance
Prepared by:	Willy Bendix, Procurement Specialist (FMP/CCR) and Andrés Suárez, Financial Management Specialist (FMP/CCR).

The executing agency will be the Ministry of Finance. The project will be executed under the Contingent Credit Facility for Natural Disaster Emergencies (CCF) established through document GN-2502-2 of 13 February 2009, which sets forth exceptions to the Bank's fiduciary policies.

Because of the contingent nature of the operation, disbursements will only be made once the conditions stipulated in the loan contract have been met, and will be made in a manner similar to that used for policy-based loans.

I. FIDUCIARY CONTEXT OF THE COUNTRY

a. With regard to procurement, Costa Rica has a broad, formally structured, hierarchical legal structure (constitution, laws, decrees, and general and specific regulations). The Ley de Contratación Administrativa [Law on Administrative Contracting][1] regulates the procurement and sale of goods and services for all public enterprises and institutions that together make up the State.[2] It also enshrines principles including equality and free competition.[3] It clearly defines the types of contracting (competitive bidding, "abbreviated" bidding, direct contracting, and various other modalities), as well as exceptions and general procedures. The law stipulates the contents of the bidding documents, requiring that they be appropriate, sufficient, and as neutral as possible; it further establishes clear rules on the receipt and opening of bids, consistent with international best practices.

[1] Law 7494 of 16 May 2006.

[2] The ministries and entities that are part of the central government; the Supreme Electoral Court; the Office of the Comptroller General of the Republic; the Office of the Ombudsman; the Public Services Regulatory Authority; decentralized institutions; State oversight and control bodies; municipalities; State universities; non-State public entities; public enterprises 50% or more of whose capital stock is held by the State or by another public entity; and any contracting activity financed in whole or in part with public resources, regardless of the legal status of the legal entity involved.

[3] According to Articles 4, 5, and 6 of the Law on Administrative Contracting, approved in 1996 and amended in 2009.

b. An overall evaluation of the national financial systems conducted in 2010, using the PEFA methodology, found Costa Rica's management of public finances to be satisfactory. The resulting report dealt primarily with budget expenditures approved by the Legislative Assembly, consisting of the central government's expenditures. Use of the Treasury's single-account subsystem to make payments for Bank-financed projects reduces major fiduciary risks involving payments, cash flow management, and reconciliations. There is also a reasonable degree of scrutiny of public finances by the Office of the Comptroller General of the Republic.

Fiduciary context of the executing agency

The Ministry of Finance, among its legally established functions, oversees financial administration of the budget, internal control, and public accounting. To do so it uses the Integrated Financial Administration System (SIGAF). A number of measures have been developed to improve this system and to ensure that it acts in an integrated, automated way with the various information systems used by the entities or divisions of the Financial Administration system, so as to minimize errors and recording delays. The Ministry of Finance, through its Bureau of Public Credit, maintains close contact with the Bank in monitoring the portfolio for sovereign guaranteed investment loan operations. At present, the Ministry of Finance is the executing agency for the Cadastre and Registry Regularization Program (loan 1284/OC-CR), through an executing unit attached to the Ministry.

Fiduciary risk evaluation and mitigation measures

We believe that the level of fiduciary risk for the operation is **low**, given the control conditions implemented, in the different stages, for the execution of public funds. While certain expenditures financed with loan proceeds could fail to meet the contractually stipulated eligibility criteria, thus making them unacceptable to the Bank, these measures have a low probability of occurring, and are, in any case, addressed by the fact that the Bank reserves the right to conduct audits of expenditures whenever it deems such action necessary.

II. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

Pursuant to the provisions of document GN-2502-2 establishing the CCF, loans from the Contingent Credit Facility are granted a waiver with respect to the Bank's policies and procedures for the procurement of goods and the contracting of services. Instead, the borrower will apply its own rules and regulations with respect to procuring goods and contracting services for extraordinary fiscal expenditures in cases of natural disasters, in accordance with any applicable provisions of local administrative regulations and laws.

Loan proceeds from the Contingent Credit Facility may only be used for expenditures deemed eligible for this operation. As part of the justification for the use of resources disbursed, the borrower will present a descriptive list of expenditures and events considered eligible for the operation, taking into account the following requirements: (i) they may not be expenditures explicitly included as contractually excluded from eligibility, nor may they be on the negative list that is part of the loan contract; (ii) they must be legal with respect to the laws of the Republic of Costa Rica; (iii) they must be directly related to the natural disaster emergency for which financing is provided; and (iv) they must involve procurement and payments that can be verified and documented, must be clearly recorded, and must be considered reasonably appropriate in terms of amount and price.

III. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

Financial management agreements and requirements are specified in document GN-2502-2 and are summarized as follows:

- **Disbursement requests.** Requests for the disbursement of loan proceeds must be submitted within 90 days of the occurrence of an eligible event, specifying the disbursement amounts being requested and indicating, where applicable, from which loan or loans the resources are to be drawn.
- **Disbursement mechanism.** Once the conditions for requesting a disbursement have been met,[4] the borrower may obtain up to 100% of the amount requested in the form of an advance on the loan.

  The executing agency must justify the use of the disbursed resources through a written declaration of adequate use, to be submitted to the Bank within 365 calendar days following the starting date of the event giving rise to the emergency.

  The Bank will recognize up to 100% of the amount of the eligible expenditures actually incurred and paid by the borrower during the 180 days following the date on which the emergency began.
- **Special account.** The project will have a special account for disbursing funds, to be administered by the Ministry of Finance.
- **Audits.** Within a period of no more than two years following each disbursement, the Bank, at its sole discretion, and without cost to the borrower, may verify through independent audits the propriety of the expenditures claimed as eligible, as well as compliance with the procedures set forth in Costa Rica's laws.

[4] Defined in the loan contract. Namely: (i) verification that an eligible event, as defined in the loan contract, has occurred; (ii) confirmation that execution of the CNDRMP, as previously agreed upon with the Bank, is being carried out in a manner satisfactory to the Bank; and (iii) submission of a disbursement request within 90 days following the occurrence of an eligible event.