

## PROJECT ABSTRACT

### COSTA RICA

<b>Project Name:</b>	ICE Debt Refinancing
<b>Project Number</b>	CR-L1012
<b>Borrower/Sponsor:</b>	<i>Instituto Costarricense de Electricidad (ICE)</i>
<b>Project cost:</b>	Approximately US\$381 million
<b>IDB Participation</b>	Up to US\$200 million
<b>IDB B- Loan</b>	Approximately US\$181 million
<b>Department</b>	Structured and Corporate Finance Department
<b>Project team</b>	Javier Molina (SCF) Carlos Trujillo (INE) Ernesto Monter (ESG)
<b>Group head:</b>	Hans Schulz

## I. PROJECT DESCRIPTION

### A. Overview

- 1.1 The Inter-American Development Bank (“IDB”) has developed a coordinated strategy for supporting the Instituto Costarricense de Electricidad (“ICE” or the “Company”) current financing needs. Such strategy is two-pronged and relies initially on two lending operations: (i) a sovereign-guaranteed CCLIP (“Línea Condicional de Crédito”) that will provide funding for electricity-related capital expenditures; and (ii) a Non Sovereign Guarantee (“NSG”) operation mainly to refinance certain outstanding loans.
- 1.2 ICE is the state-owned telecommunications and electricity institution of Costa Rica, headquartered in San José. ICE was established in 1949 as a public, autonomous institution pursuant to the constitution of Costa Rica. ICE is vested with the authority to develop the natural resources of the country for the operation and management of electric power and public utility services and has the right and authority to own assets and conduct operations independently of the Government of Costa Rica (“GOCR”).
- 1.3 The NSG operation contemplates an A-Loan of up to US\$200 million and a B-Loan of approximately US\$381 million (together, the “IDB Loan”).

### B. Project Benefits

- 1.4 Enable ICE to have a more efficient capital structure. The proposed NSG operation will provide ICE with a more efficient debt structure that has longer maturities, thus improving its asset-liability management that will allow ICE to grow or expand while at the same time maintaining its long-term sustainability.

- 1.5 Supporting the investments in infrastructure services. By extending the average tenor of ICE's debt financing, the Bank contributes to freeing-up a portion of cash flow currently used for debt service to be re-directed to investments in infrastructure to improve service quality and coverage.

**C. Bank Participation**

- 1.6 Financial additionality: extending the average life of the ICE's debt structure. The tenors contemplated in the proposed IDB Loan required by the nature of investments in infrastructure that have large capital costs are currently not available in the commercial market.
- 1.7 Catalytic demonstration effect. Bank participation in the Project will have an important demonstration effect of the viability of commercial long-term financing for public companies, particularly in infrastructure sectors.

**II. ENVIRONMENTAL AND SOCIAL STRATEGY<sup>1</sup>**

- 2.1 The proposed NSG operation under consideration consists mainly of a refinancing operation. While it might involve some limited support for investment expenditures, these are expected to have minimal environmental and social impacts. Therefore, as per IDB's OP 703 Environment and Safeguards Compliance Policy, the proposed NSG operation has been classified as a Category C operation.
- 2.2 The Environmental and Social Strategy will consist on conducting Environmental and Social Due Diligence activities to assess the environmental and social viability of the proposed NSG operation, and will include: (i) review the performance of the projects/works funded with the loans to be refinanced to assess the adequacy of management of environmental and social, and health and safety impacts, and identify potential liabilities; and (ii) assess ICE's overall management of environmental, social and health and safety aspects, which will include coordinating efforts with INE and the review of the information of the Strategic Environmental Assessment (SEA) prepared for the CCLIP operation (i.e. funding of electricity-related capital expenditures). The SEA provides an analysis of proposed investments and related environmental and social management strategies associated with the development of the electric program in the country. The SEA is almost concluded and includes some recommendations to strengthen ICE's environmental and social management practices in ICE's activities in the telecommunication sector.

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<sup>1</sup> The ESS has been prepared based upon a preliminary review of the proposed NSG operation.