

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

COSTA RICA

BORDER INTEGRATION PROGRAM OF COSTA RICA

(CR-L1066)

LOAN PROPOSAL

This document was prepared by the project team consisting of Juan Manuel Leño (TSP/CPN), Project Team Leader; Jaime Granados (TIU/CCR), Deputy Project Team Leader; Pablo Guerrero, Luis Uechi, Alejandra Caldo, Isabel Granada, and Caterina Vecco (INE/TSP); Edgar Zamora, Sofía Fallas Barquero, and Carlos Patiño (TSP/CCR); Álvaro Sarmiento and Sandra Corcuera (INT/TIU); Juan Carlos Pérez-Segnini (LEG/SGO); Juan Carlos Páez and Elsa Chang (VPS/ESG); and Jorge González and Andrés Suárez (FMP/CCR).

This document is being released to the public and distributed to the Bank's Board of Executive Directors simultaneously. This document has not been approved by the Board. Should the Board approve the document with amendments, a revised version will be made available to the public, thus superseding and replacing the original version.

CONTENTS

PROJECT SUMMARY

I.	DESCRIPTION AND RESULTS MONITORING	1
A.	Background, problem addressed, and rationale.....	1
B.	Objective, components, and costs.....	8
II.	FINANCING STRUCTURE AND MAIN RISKS.....	12
A.	Financing instrument.....	12
B.	Environmental and social risks	12
C.	Fiduciary and execution risks	13
III.	IMPLEMENTATION AND MANAGEMENT PLAN.....	15
A.	Summary of implementation arrangements.....	15
B.	Summary of monitoring and evaluation arrangements	17

ANNEXES	
Annex I	Development Effectiveness Matrix (DEM) - Summary
Annex II	Results Matrix
Annex III	Fiduciary Agreements and Requirements

ELECTRONIC LINKS

REQUIRED

1. Procurement plan
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38723705>
2. Program execution plan (PEP)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38741942>
3. Annual work plan (AWP)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38724834>
4. Monitoring and evaluation arrangements
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38742626>
5. Environmental and social management report (ESMR)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38695023>

OPTIONAL

1. Map of border crossing locations
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38245183>
2. Project economic evaluation
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39410508>
3. Analysis of the operation in the context of a regional integration policy
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38738527>
4. Coordinated border management: A concept paper
<http://www.wcoomd.org/en/topics/research/activities-and-programmes/~media/07A938B0E7E74757B0DE18557FDF35BB.ashx>
5. Coordinated border management: From theory to practice
<http://www.wcoomd.org/en/topics/research/activities-and-programmes/~media/799443EF399B48C0B18DA2285B034F36.ashx>
6. Benchmarking report on crossing times at border stations
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=37418090>
7. Adaptation of studies on control, management, infrastructure, and investment (Peñas Blancas)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38241593>
8. Adaptation of studies on control, management, infrastructure, and investment (Paso Canoas)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38241467>
9. Adaptation of studies on control, management, infrastructure, and investment (Sixaloea)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38241658>
10. Adaptation of studies on control, management, infrastructure, and investment (Las Tablillas)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38241674>
11. Analysis of single window processes
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38740035>

12. Legal report (Peñas Blancas)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38740556>
13. Definition of baseline and estimate of savings (Peñas Blancas)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38740640>
14. Socioeconomic report (Peñas Blancas and Las Tablillas)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38740927>
15. Involuntary resettlement framework (IRF)
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39410570>
16. Financial viability for the State
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=38786366>
17. Survey of user satisfaction with border crossings
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39410445>
18. Probability estimate of program cost overruns
<http://idbdocs.iadb.org/WSDocs/getDocument.aspx?DOCNUM=39524031>

ABBREVIATIONS

AEO	Authorized Economic Operator
BIM	Border Integration Model
C/B	Cost benefit
CCR	IDB Country Office in Costa Rica
CO ₂	Carbon dioxide
COMEX	Ministry of Foreign Trade
CPF	Consejo de Puestos Fronterizos - Terrestres [Land Border Crossings Council]
CTU	Motorized cargo transport unit
DGA	Customs Bureau
EIRR	Economic internal rate of return
ESMR	Environmental and social management report
ICB	International competitive bidding
IFRS	International Financial Reporting Standards
INE/TSP	IDB Transport Division
INT	IDB Integration and Trade Sector
IRP	Involuntary resettlement plan
NCB	National competitive bidding
NPV	Net present value
PEU	Program executing unit
PROCOMER	Promotora de Comercio Exterior [Foreign Trade Corporation of Costa Rica]
RFP	Request for proposals
SUGEF	Superintendencia General de Entidades Financieras [Office of the Superintendent of Financial Institutions]
TIM	Sistema de Tránsito Internacional de Mercancías [International Transit of Goods system]
TIU	IDB Trade and Investment Unit
VUCE	Ventanilla Única de Comercio Exterior [Single Window for Foreign Trade]
WEF	World Economic Forum

PROJECT SUMMARY
COSTA RICA
BORDER INTEGRATION PROGRAM OF COSTA RICA
(CR-L1066)

Financial Terms and Conditions					
Borrower: Republic of Costa Rica		Flexible Financing Facility*			
		Amortization period:		25 years	
Executing agency: Ministry of Finance		Original weighted average life:		15.25 years	
		Disbursement period:		5 years	
		Grace period:		5.5 years	
Source	Amount (US\$)	Inspection and supervision fee:		**	
		Interest rate:		LIBOR	
IDB (Ordinary Capital)***	100,000,000	Credit fee:		**	
Local	0	Currency: United States dollars from the Ordinary Capital			
Total	100,000,000				
Project at a glance					
Objective: The objective of the program is to strengthen Costa Rica’s competitiveness by modernizing its border infrastructure, equipment, and systems, with a view to ensuring the efficient and effective coordination of the control activities performed by the border control agencies. The specific objectives are to: (i) implement a physical and regulatory system of effective control tools and processes; and (ii) provide Costa Rica’s border crossings with the appropriate infrastructure and equipment to effectively implement control tools and processes for cargo and people. This objective is consistent with efforts under way by the countries of Central America to consolidate their regional integration process (paragraph 1.21).					
Special contractual conditions precedent to the first disbursement: (i) designation of the body that will act as the program coordination unit within the Customs Bureau (DGA), comprising a professional, multidisciplinary technical support team led by a project manager, pursuant to the conditions established in the program’s Operating Regulations; and (ii) signing of a management trust agreement with an institution in the Costa Rican banking system or the contracting of a management entity for program execution. Partial eligibility of up to US\$500,000 is expected once the conditions set forth in the general conditions of the loan contract have been met (paragraph 3.5).					
Special contractual execution conditions: (i) signing of the trust agreement with a Costa Rican banking system institution or engagement of a management entity to form the program execution unit (PEU); (ii) prior to soliciting bids on the construction works at each border crossing, the executing agency will have presented for the Bank’s no objection: (a) the bidding documents, including the technical specifications and infrastructure requirements agreed on previously among the user institutions; (b) evidence that at least one public consultation has been held pursuant to Operational Policy OP-710; and (c) an involuntary resettlement plan has been drafted, if required, for a border crossing; and (iii) prior to the start of works: (a) any legally mandated permits and approvals will have been secured; and (b) 50% of the involuntary resettlement plan will have been executed, if involuntary resettlement is required (paragraph 3.6).					
Exceptions to Bank policies: None					
Project qualifies as:		SEQ <input type="checkbox"/>	PTI <input type="checkbox"/>	Sector <input type="checkbox"/>	Geographic <input type="checkbox"/>
					Headcount <input type="checkbox"/>

- (*) Under the Flexible Financing Facility (document FN-655-1), the borrower has the option of requesting changes to the amortization schedule, as well as currency and interest rate conversions. The Bank will take operational and risk management considerations into account when reviewing such requests.
- (**) The credit fee and inspection and supervision fee will be established periodically by the Board of Executive Directors as part of its review of Bank lending charges, in accordance with the applicable provisions of the Bank's policy on the methodology used to calculate charges on Ordinary Capital loans.
- (***) The disbursement of the loan proceeds will be subject to the following maximum limits: (i) up to 15% during the first 12 months; (ii) up to 30% during the first 24 months; and (iii) up to 50% during the first 36 months, all from the date of approval of the loan by the Board of Executive Directors of the Bank.

I. DESCRIPTION AND RESULTS MONITORING

A. Background, problem addressed, and rationale

- 1.1 **General context.** International trade in goods (imports and exports) accounts for 60% of Costa Rica's GDP.¹ The country's human development and competitiveness indicators are favorable with respect to the region.² Having experienced satisfactory growth over the past two decades, in 2014 Costa Rica achieved real GDP growth of 3.8%.
- 1.2 The country has a network of preferential trade agreements with more than 44 partners, accounting for 83% of its international trade and 85% of total exports. After the United States, the countries of the Mesoamerican region³ are the second largest export market, accounting for 25% of exports, 89% of which are channeled through land border crossings.⁴ Costa Rica's border crossings also performed controls and searches on approximately two million people in 2014.
- 1.3 The country operates the Paso Canoas and Sixaola border crossings with Panama and the Peñas Blancas and Las Tablillas⁵ border crossings with Nicaragua.⁶ Located on the Pacific Corridor,⁷ Paso Canoas and Peñas Blancas account for the largest trade and passenger flows, while Sixaola is relevant in the export trade of perishable goods. Lastly, Las Tablillas holds considerable potential for the transit of extraregional goods through the ports of Limón and Moín on the Atlantic to access international markets.
- 1.4 The country's solid trade performance is largely the fruit of its efforts to eliminate tariffs and facilitate the entry into force of trade agreements. However, user

¹ [Ministry of Foreign Trade](#), May 2013-April 2014: exports of US\$11.543 billion and imports of US\$18 billion.

² According to the World Economic Forum's [Global Competitiveness Index 2014-2015](#), Costa Rica ranks fifty-first out of 144 countries, behind Chile and Panama.

³ Mesoamerica comprises Belize, Colombia, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras, Mexico, Nicaragua, and Panama.

⁴ Foreign Trade Corporation of Costa Rica (PROCOMER), [foreign trade statistical portal](#).

⁵ This crossing will open to trade on 2 May 2015 (paragraph 1.10). At present, it primarily—and provisionally—performs the customs functions for the transport of oranges from Nicaragua to plants in Costa Rica for processing.

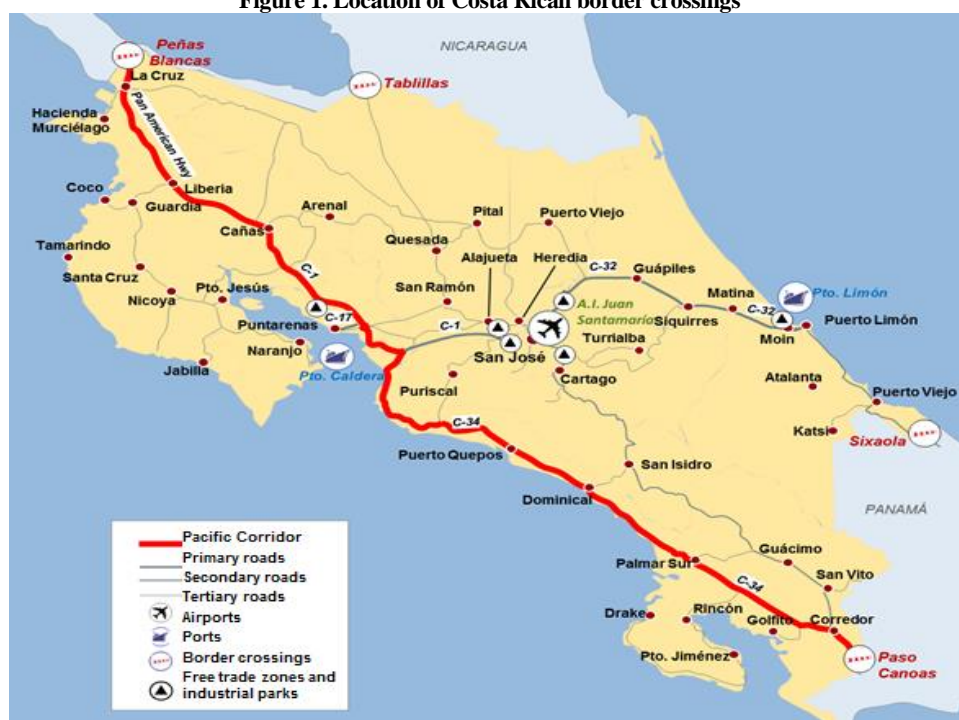
⁶ In 2011, 1,981,000 tons of cargo passed through Peñas Blancas; 607,000 tons through Paso Canoas; and 180 tons through Sixaola (Analysis, strategy, and instruments to improve logistics in Mesoamerica, IDB 2013).

⁷ The Pacific Corridor is a 3,210 km highway network linking seven countries. It stretches from Puebla, Mexico to the Panama City, Panama, following the Pacific coastline.

satisfaction with border services has been declining in recent years, owing in part to the quality of border infrastructure and the efficiency of customs processes.⁸

- 1.5 **The problem to be addressed.** For middle-income countries like Costa Rica, international prices for importing and exporting goods tend to be exogenous. Consequently, deficient transportation infrastructure and border crossing management increase transport costs by between 4% and 12%,⁹ thus eroding the economy's competitiveness. These shortcomings tend to spread to the rest of the logistics chain, through high user costs,¹⁰ border clearance times, and service quality with respect to cargo security and risk at the border, ultimately impacting productivity.

Figure 1. Location of Costa Rican border crossings



⁸ According to the measurement of perceived customs procedure efficiency conducted by the WEF, Costa Rica ranked seventy-eighth of 144 countries, behind Chile, Dominican Republic, El Salvador, Panama, Paraguay, Peru, and Uruguay. Costa Rica scored 3.9 out of a total of 7 points. This view is compatible with the findings of a survey of user satisfaction with border crossing services (see footnote 13).

⁹ Competitive Advantage: Moving Ahead of the Global Competition, IDB 2013.

¹⁰ Logistics costs are one of the relevant country competitiveness indicators. Users face border management and infrastructure-related inconveniences which impact the performance of overland cargo transport. Trucking services in Costa Rica, IDB, 2013.

- 1.6 The main factors impacting border crossing management in the country are: (i) the reduced availability of border infrastructure in good condition,¹¹ which impacts the efficiency of processes¹² and user satisfaction levels,¹³ promotes informal economic activities,¹⁴ causes security problems on the premises,¹⁵ impacts the physical integrity of cargo,¹⁶ and generates environmental problems due to poor waste treatment; (ii) institutional capacity shortcomings in terms of coordinating the comprehensive management of border assets, resulting in the lack of border crossing master development plans; (iii) the lack of coordination among the agencies responsible for border control activities, resulting in long processing times,¹⁷ the lack of integrated risk analysis systems for border control agencies,¹⁸ and underutilization of the transit system, requiring unnecessary import and export

¹¹ Inside the primary customs zone at Peñas Blancas, the buildings are in poor condition, street vendors and money changers are prominent, and there are too few parking areas and no separate lanes for pedestrians (and the existing lanes are in poor condition). At Paso Canoas, there is not enough room to accommodate all the trucks and the paved areas inside the main customs zone are in precarious condition. At Sixaola, the primary customs area is not enclosed; its facilities are in fair condition. And since there is no infrastructure in place at Las Tablillas, immigration and customs controls are performed in the municipio of Los Chiles, and sanitary controls are carried out using makeshift infrastructure. Overall, with respect to equipment, all of the border crossings are seen as lacking control elements and the equipment and furnishings of their control agencies are considered obsolete.

¹² A comparison conducted with a world-class border crossing (border crossing at Laredo) found that it takes 8 minutes to clear imports without inspection; from 1 to 2 hours to clear imports with x-ray inspection; from 2 to 4 hours to clear imports with intrusive inspection; and 20 seconds to clear exports ([optional electronic link 6](#)). For purposes of comparison, for Peñas Blancas, the average time reported to clear imports without inspection is 6.7 hours; 22.8 hours to clear imports with intrusive inspection; and 2.1 hours to clear exports without inspection ([optional electronic link 13](#)).

¹³ Estimate based on the findings of user perception surveys, using a global index with values on a scale of 0 to 100, calculated by weighting the following critical characteristics: access roads; infrastructure; technology and equipment; service quality; socioeconomic and environmental considerations; cost; and security. The results for truck drivers were 34 (Sixaola) and 50 (Paso Canoas); and for tourists, 52 (Sixaola) and 76 (Peñas Blancas) ([optional electronic link 17](#)).

¹⁴ According to the socioeconomic study for Peñas Blancas, 78 informal workers engage in money changing for users at the border crossing.

¹⁵ Owing to security conditions, drivers themselves do not leave their trucks to do paperwork for fear their freight may be stolen. Consequently, they have to hire intermediaries to carry out customs procedures, making transport more expensive and slowing down the process.

¹⁶ At border crossings, commercial activities as well as individuals who have nothing to do with customs processes are encroaching on sterile immigration control zones, causing security risks and operational inefficiencies.

¹⁷ Wait times at border crossings increase engine idling time of trucks transporting perishable goods. In 2012, 43,119 transport refrigeration units crossed the border at Peñas Blancas. The average wait time per truck was 4.2 hours.

¹⁸ An analysis of single window processes points to the following inefficiencies: duplication of customs procedures; the absence of an electronic payment option; manual entry of data; repeated rejection of customs forms, etc. In addition, the average cycle for import and export procedures involving low-complexity products (e.g. pineapple and bananas), medium-complexity products (e.g. dairy products, refrigerators, and yucca) and high-complexity products (e.g. agrochemicals and animal feeds), is 2.3, 4.65, and 20 hours, respectively ([optional electronic link 11](#)).

operations to be performed at border crossings;¹⁹ and (iv) the absence of a bilateral coordination model to establish processes, controls, and infrastructure under integrated border systems.²⁰

- 1.7 **The government's strategy.** In 2013, Costa Rica's Legislative Assembly ratified Law 9154, authorizing the entry into force of the European Union-Central America Association Agreement, which seeks to achieve greater coordination on interregional trade facilitation issues and streamline processes at border crossings, with a view to the gradual and progressive establishment of the Central American customs union.²¹ This law also created the Land Border Crossings Council (CPF), which will enable the agencies accountable for specific control functions to act jointly. It will also establish a coordinating unit responsible for preliminary draft budgets and allocating the revenues resulting from the taxes created by said law (paragraph 2.9).
- 1.8 The government strategy is to provide the CPF with an automated and integrated system for managing border crossings²² that facilitates interoperability and the sharing of information, helping them meet the increased demand for trade and transit of people. The strategy also focuses on ensuring that the staff of these institutions has the training it needs to efficiently coordinate facilitation and control functions, which will improve the performance of border crossings and the satisfaction of their users.
- 1.9 Recognizing this situation, the Government of Costa Rica has identified the Border Integration Model (BIM) (paragraphs 1.14 and 1.15) as the appropriate mechanism to guide improvements in two dimensions of border management. The first concerns management at the national level to coordinate the various control agencies present at border crossings, while the second is geared toward international management, which involves establishing collaboration and dialogue with neighboring countries and trading partners.
- 1.10 Accordingly, Costa Rica is pursuing far-reaching coordination with its neighbors. With Nicaragua, it signed a bilateral memorandum of understanding on 13 March 2015, establishing the operational model for the Las Tablillas-San Pancho and Peñas Blancas-Peña Blanca border crossings. It also established the coordination

¹⁹ In 2012, the implementation of the International Transit of Goods (TIM) system in the Pacific Corridor was finalized, resulting in a more than 80% decrease in processing time. In Costa Rica, however, 70% of imports and exports clear the borders outside the TIM system.

²⁰ A common thread observed in the customs services of the region is the lack of knowledge of customs staff about legal regulations and their procedural aspects, which leads to discretionary implementation.

²¹ The December 2014 Summit of the Heads of State and Government of the Central American Integration System (SICA) member countries in Placencia, Belize, instructed the pertinent ministers to prepare a roadmap to include the time frames, deadlines, and authorities responsible for establishing the Central American customs union (paragraph 1.16).

²² In this sense, the improvement in border crossing management is primarily associated with greater efficiency in the areas of fiscal, parafiscal, and trade facilitation management, and pre-arrival customs procedures.

process for the design, execution, and functioning of operations to modernize and develop border crossing infrastructure, and well as the rules governing the operation of the heretofore provisional crossing at Las Tablillas-San Pancho, which will open on 2 May 2015.

- 1.11 With Panama, Costa Rica has held three bilateral coordination meetings, resulting in the creation of a binational commission on the Costa Rica-Panama Convention for Border Development and a standing committee on trade. In November 2014, that committee signed an agreement to set up an integrated control center for Paso Canoas, which will entail the development of a two-point model with “virtual integration” of controls and, ultimately, a single inspection process.
- 1.12 **Institutional organization of the sector.** The Ministry of Finance approves the budgets of the relevant State agencies based on public policy priorities, while the Ministry of Foreign Trade (COMEX) is responsible for defining and steering the country’s foreign trade and investment policy. The following agencies intervene at border crossings: (i) the National Customs Service (SNA); (ii) the Bureau of Migration and Foreign Nationals; (iii) the State Plant Health Service (SFE) and National Animal Health Service (SENASA), responsible for phytosanitary and zoosanitary control at the borders; (iv) the Ministry of Public Security (MSP), responsible for law enforcement control; (v) the Ministry of Health, responsible for the control of pharmaceuticals; and (vi) the Ministry of Culture, responsible for the control of cultural heritage.
- 1.13 **Bank expertise in the sector and in the Border Integration Model (BIM).** The IDB’s Transport Division (TSP) and Integration and Trade Sector Department (INT) have spearheaded the design and execution of border crossing operations in Ecuador, Guatemala, Nicaragua, and Peru.²³ They have also used nonreimbursable resources to conduct research on physical and operational aspects of the region’s border crossings based on BIM elements²⁴ and the priority logistics corridors of the region, identifying the main problems related to transit capacity and border

²³ The Border Crossing Project at Desaguadero (PE-L1003, 1836/OC-PE) and Improvement of Border Crossings in Ecuador (EC-L1116, 3324/OC-EC). In preparation: Border Integration Program (NI-L1083) and Guatemala-Mexico Border Integration Program (GU-L1086).

²⁴ With respect to regional efforts to manage international transit, progress has been made on implementing the TIM system from Mexico to Panama. Regarding the Authorized Economic Operators (AOEs) program, the countries of Central America and the Caribbean approved the regional strategy to develop and harmonize their programs, but regulatory changes to the Central American uniform customs code are still needed. Regarding the Single Window for Foreign Trade (VUCE), pilot programs are getting under way to formulate an inter-American initiative on development and interoperability. At the national level, there have been some areas of progress made in the VUCE of Costa Rica, as well as progress in the development of VUCEs in Nicaragua and Panama.

infrastructure deficiencies.²⁵ TSP is also responsible for executing US\$700 million in road infrastructure loans in Costa Rica, mostly along the Pacific Corridor. These experiences were taken into account in the assessment and identification of the problem, as well as in the definition of the implementation model (paragraphs 1.17, 1.18, and 3.1).

- 1.14 In addressing the challenges of border operations in the context of trade competitiveness and the movement of goods and people, the Bank, in coordination with the countries of the Mesoamerica Project,²⁶ has been working on the design of the BIM as a supplementary initiative to the consolidation of the Pacific Corridor and other sections of the International Network of Mesoamerican Highways (RICAM). This model, based on the World Customs Organization, is designed to implement effective and efficient control of the transport of goods and people to help reduce the time and cost of international trade.
- 1.15 Without losing sight of the particular features of each of the region's countries, the BIM includes the following parameters: (i) adoption of international border management standards;²⁷ (ii) establishment of an advance information system that is interoperable at the national and regional levels, based on the Single Window for Foreign Trade (VUCE) and information exchange systems to combat fraud; (iii) implementation of risk analysis; (iv) public certification of authorized economic operators (AEOs); (v) efficient quarantine controls under internationally recognized and harmonized regulations; (vi) implementation of joint operational processes among border agencies, especially with respect to international transit of goods, border management systems, and coordinated inspection systems; (vii) implementation and development of infrastructure and equipment to address control needs; and (viii) addressing the resulting socioeconomic and environmental impacts.

²⁵ Support to the Border Integration Initiative Costa Rica-Panama (RG-T2069); definition of the operation and optimization of CIM border crossings (RG-T1982); Multimodal International Merchandise Transit (TIM) (RG-T2053); Analysis of Freight Logistics and Trade in Mesoamerica (RG-T1660); Optimization of Border Crossing Facilities in the Pacific Corridor (RG-T1662); Support to Border Crossings Improvement (RG-T2267); and Restoration, Maintenance, and Operation of Pacific Corridor Roads (RG-T1744).

²⁶ The Mesoamerican Integration and Development Project, better known as the Mesoamerica Project, is a mechanism developed by the Mesoamerican countries to facilitate the design, funding, and execution of regional integration projects in the areas of infrastructure, connectivity, and social development.

²⁷ Djankov, S., C. Freund, and C. Phan. 2006. Trading on Time. World Bank Policy Research Working Paper 3909; and De P. 2007. Empirical Estimates of Trade Costs for Asia. Asian Development Bank Institute. The impact of internal logistics on trade was examined using data on trade costs, focusing on the variability and reliability of shipments of goods both from and to destination markets. This includes the time in transit to the foreign trade node (border crossing, airport, or port) as well as customs clearance and inspection delays. The elasticity of trade with respect to time (variability of the formality and reliability of the service) varies within the sample and is considerably higher for the developing countries (from 0.8 to 1.2). The implication is that the projects of the Pacific Corridor highway program and border crossing projects to reduce the transit time of goods will have a very significant trade stimulation impact.

- 1.16 **Alignment with regional initiatives.** This operation is aligned—and will continue to be coordinated—with the regional efforts undertaken since 2014 by the Central American countries with Bank support.²⁸ In fact, at the request of the Heads of State and Government in their June 2014 Declaration of Punta Cana and the Plasencia Declaration in December of that same year (paragraph 1.7), a regional strategy of trade facilitation and competitiveness was designed with an emphasis on coordinated border management. Instructions were also given to advance in the formation of the Central American customs union. Under this framework, the countries have identified short-, medium-, and long-term trade facilitation measures, especially at border crossings.²⁹ All short-, medium-, and long-term measures will be harmonized with the integrated management of controls proposed for this operation (paragraph 1.26). The coordination of regional initiatives with the activities financed under this operation will be carried out by COMEX and the SGA, which are involved in both initiatives.
- 1.17 **Lessons learned in the execution of operations.** As of December 2014, the sovereign guaranteed portfolio consisted of 11 operations that had disbursed 32% of the approved amount, which is below the Bank average.³⁰ This lower disbursement capacity is also evidenced by recurrent requests for extensions of the execution period.³¹ An analysis of IDB loan execution has revealed factors that have limited and constrained the efficient execution of projects. These are primarily attributable to executing agency capacity and the traditional execution mechanisms, which have had a negative impact on execution times and costs.
- 1.18 Based on the this analysis, for the last two operations approved by the Board of Executive Directors (operations CR-L1053 and CR-L1032) an alternative execution model was considered whereby the activities of the executing agencies would be supported by a management entity, but key responsibilities and decision-making would remain with the public agency. This program has incorporated the lessons learned in the proposed execution mechanism (paragraphs 3.1 and 3.2).

²⁸ Costa Rica has deepened coordination for developing integrated border crossings. Based on these arrangements, operation NI-L1083 will finance the modernization of Nicaragua's border crossings with Costa Rica. Panama, in turn, has expressed interest to the Bank in an operation to modernize its border crossings with Costa Rica.

²⁹ These include regional risk management, VUCE interconnection, deepening the TIM system, implementing and signing AEO mutual recognition agreements, designing a future Central American digital trade platform, and the need for donor coordination. Short-term measures are being supported with Bank nonreimbursable resources and include the advance electronic transmittal of customs documents, electronic sanitary certification, the use of radio frequency devices for the control of transport units, immigration facilitation measures for truck drivers, and security camera systems.

³⁰ The study "So you think you know what drives disbursements at the IDB? Think, think again...", prepared in 2012 by the IDB's Office of Strategic Planning and Development Effectiveness (SPD) shows that, over time, the disbursement curve for Costa Rica has been below the typical curves for the Bank.

³¹ A full 86.4% of operations in Costa Rica (38 of 44 operations executed through 2012) have required an extension.

- 1.19 **Strategic alignment.** This operation is aligned with the country strategy in preparation, which aims to continue the Bank's support for the transportation sector and its linkage to regional integration. The program will also contribute to the priorities of the Ninth General Increase in Resources of the Inter-American Development Bank (document AB-2764) in terms of: (i) lending to small and vulnerable countries; and (ii) lending for regional cooperation and integration. The program contributes to achieving the regional targets for: (i) opening up foreign trade; (ii) fostering the development of intraregional trade integration in Latin America and the Caribbean, and the development of the following Bank outputs: (a) number of public trade officials and private entrepreneurs trained in trade and investment; and (b) regional and subregional integration agreements and cooperation initiatives supported; and (iii) cross-border and transnational projects supported, as defined in the Results Framework (see Annex II). With respect to sectors, the program contributes the following priorities: (i) infrastructure for competitiveness and social welfare; and (ii) competitive regional and global international integration. With respect to this last pillar, the operation is consistent with national subsidiarity and regional additionality criteria (document GN-2733), since it supports an objective that is cross-border in scope: boosting Costa Rica's regional trade competitiveness ([optional electronic link 3](#)).
- 1.20 The operation is also aligned with the Sector Strategy to Support Competitive Global and Regional Integration and the IDB Infrastructure Strategy: Sustainable Infrastructure for Competitiveness and Inclusive Growth (document GN-2710-5), since it is in line with the strategic principle of financing and technical assistance for infrastructure that supports economic growth, provides access, and fosters regional and global integration. In addition, the operation is aligned with the Transportation Sector Framework Document (GN-2740-3) and the Integration and Trade Sector Framework Document (GN-2715), since the program not only focuses on infrastructure but also pursues the reform of regulatory frameworks, institutional strengthening actions, efforts to bolster the technical capacity of the public agencies operating at the borders, and the improvement of control systems.

B. Objective, components, and costs

- 1.21 The objective is to strengthen Costa Rica's competitiveness by modernizing its border infrastructure, equipment, and systems, with a view to ensuring the efficient and effective coordination of the control activities performed by the border control agencies. The specific objectives are to: (i) implement a physical and regulatory system of effective control tools and processes; and (ii) provide the country's border crossings with the appropriate infrastructure and equipment to effectively implement control tools and processes for cargo and people. This objective is consistent with efforts under way by the countries of Central America to consolidate their regional integration process.
- 1.22 Addressing the identified causes (paragraphs 1.5 and 1.6), the program's activities are structured into two specific components: (i) to improve physical and

infrastructure conditions at border crossings; and (ii) to strengthen and coordinate the control processes of the responsible institutions.

- 1.23 **Component 1. Investments in border infrastructure and equipment (US\$73.63 million).** The investments under this component will ensure that all special-use facilities and other installations required by each agency are available. The component will finance the construction/renovation and equipping of facilities at the Peñas Blancas, Paso Canoas, Sixaola, and Las Tablillas border crossings (paragraph 1.3), to include: (i) the proposed physical and functional configuration for each border crossing and engineering designs and studies required; (ii) procurement, preparation, and/or modification of land, and demolition of existing infrastructure; (iii) construction of internal road network, parking lots, and inspection areas; (iv) equipment needed for the required services; (v) installation of nonintrusive control devices and management stations;³² (vi) technical and environmental supervision of works; and (vii) the socioenvironmental mitigation plans identified in the ESMR and resettlement compensation (if necessary).
- 1.24 **Representative sample.** This operation is structured as a multiple works program, given its features and the advances made in technical definitions specific to each border crossing (paragraph 2.1). The activities planned for each border crossing are aligned with the common regional parameters established in the BIM.³³
- 1.25 The representative sample includes the reconditioning and modernization of the Peñas Blancas border crossing based on a control center model that would facilitate virtually integrated crossings. With functional adjustments, this center could, in the medium term, assume integrated operations with the corresponding border station on the Nicaraguan side. The activities to be financed for this border crossing include: (i) engineering designs; (ii) land preparation and/or modification; (iii) adaptation of existing infrastructure; (iv) construction of buildings, internal road network, parking lots, and inspection areas; (v) equipment for basic services; (vi) installation of nonintrusive control devices and management stations; (vii) implementation of resettlement and workforce reintegration plans for the affected individuals; and (viii) technical and environmental supervision of works. The cost of these activities will amount to US\$28.22 million, or 28.2% of the total operation (paragraph 1.29).
- 1.26 **Component 2. Modernization and integration of border processes (US\$12.58 million).** The objective is to improve institutional coordination, fiscal and parafiscal control, and security, including financing to: (i) modernize the

³² Devices able to automatically (or semiautomatically) capture specific vehicle data, which is then incorporated into management control systems.

³³ Interventions may be: (i) dual facility border control point,” i.e. a control point on either side of the border controls the entry and exit of cargo, vehicles, and passengers using its own infrastructure and systems; and (ii) single facility border control point,” i.e. two countries share infrastructure and integrated systems within a single facility to control the entry and exit of cargo, vehicles, and passengers.

customs information system,³⁴ which would involve the development of regulations governing customs processes, a reengineering of processes, and implementation of information technology systems for customs management, implementation of the integrated risk management system for border control, strengthening the AOE program,³⁵ and training private operators and border officials in the new systems and processes; (ii) expand and integrate institutional systems, which would involve an expansion of the VUCE; and (iii) develop a border post management system, which would entail establishing and implementing systems at each border crossing and integrating them with those of the institutions involved in their management.

- 1.27 **Program management and administration (US\$6.57 million).** Financing will be provided in this category for: (i) the program's socioenvironmental management, including environmental and social studies as well as consultation and dissemination activities; (ii) execution and management support; (iii) external financial audits; and (iv) monitoring and evaluation activities.
- 1.28 **Cost and financing.** The total cost will be US\$100 million, to be financed with the Bank's Ordinary Capital resources under the Flexible Financing Facility.

Table 1. Cost and Financing (US\$ millions)

Components and investment categories		IDB
Component 1	Investments in border infrastructure and equipment	73.63
Component 2	Modernization and integration of border processes	12.58
Category 1	Program management and administration	6.57
	Support for execution and administration	4.87
	Support for socioenvironmental management	1.40
	Auditing, monitoring, and evaluation	0.30
Category 2	Contingencies	7.22
Total		100.00

- 1.29 **Eligibility.** The selection criteria for Component 1 infrastructure projects to be financed with program resources, but that are not part of the representative sample of projects, will be defined in the program's Operating Regulations (paragraph 3.4). These criteria concern compliance with the required technical, social, and environmental³⁶ feasibility and an economic return of 12% or more, measured by

³⁴ The aim is to formulate national regulations aligned with the requirements of regional regulations—Unified Central American Customs Code (CAUCA) and the Regulations of the Central American Uniform Customs Code (RECAUCA)—and other regulatory provisions governing fiscal, parafiscal, and immigration control. A consulting assignment is planned to identify the specifics of these requirements (paragraph 2.8).

³⁵ In Costa Rica, the AOE is known as the Customs Facilitation Program for Reliable Trade (PROFAC).

³⁶ Works classified as a category B will be eligible for financing under the program and will meet the environmental and social requirements established in the Environmental and Social Management Report (ESMR).

the economic internal rate of return, just as the sample project was evaluated (paragraph 1.31).

- 1.30 **Program beneficiaries.** Cargo transport users, other actors in the logistics chain, and individuals who use border crossings will benefit most from the program's activities,³⁷ which will facilitate greater reliability and predictability of the wait times for services, inspections, and border control formalities, as well as time- and cost-related improvements for users.
- 1.31 **Technical and economic evaluation.** For the economic evaluation of the sample (Peñas Blancas), a cost-benefit analysis was conducted following a methodology that compared total economic costs (costs for users and for the state) both with and without the project, considering a 22-year analysis period (investment execution and use of the infrastructure). The evaluation identified the following main benefits: the variation in user costs attributable to the time savings that would be generated as a result of the program's interventions; and the variation in the State's costs attributable to the construction and operation of the facilities (investments, additional maintenance, and operating costs).
- 1.32 Considering the net flow of economic costs for the analysis period, the following were calculated: net present value (NPV) at a 12% discount rate; EIRR, the cost-benefit ratio; and the NPV-to-investment ratio. A sensitivity analysis was also performed, using a Monte Carlo simulation to evaluate the impact of a significant number of events (20,000 iterations) within specific ranges of variation of the project's costs and benefits. The results revealed a high probability (99.5%) that EIRR and NPV could surpass 24.7 and US\$45.7 million, respectively ([optional electronic link 2](#)).

Table 2. Cost-benefit analysis for the Peñas Blancas border crossing

Scenario	Return indicators			
	NPV (US\$ million)	EIRR (%)	Benefit-cost ratio	NPV to-investment ratio
Base-case scenario	53.478	27.7	2.50	1.51
Simulation	41.2	23.5	2.05	1.06

- 1.33 **Results Framework.** The outcome indicators will be measured directly or indirectly to identify: (i) the improvement in border crossing efficiency measured in terms of capacity, time, and cost; (ii) the improvement in customs management efficiency measured in terms of electronic declarations, percentage of physical inspections, average "red channel" clearance time, number of entrepreneurs or public officials trained; and (iii) improvement in perceived service quality, which

³⁷ In 2014, Peñas Blancas expected 599 freight vehicles per day and 1,560,487 passengers annually; Paso Canoas, 234 freight vehicles per day and 447,596 passengers annually; and Sixaola, 34 freight vehicles per day and 165,892 passengers annually ([optional electronic link 7](#), [optional electronic link 8](#), and [optional electronic link 9](#)).

will be a composite indicator based on user satisfaction surveys ([required electronic link 5](#)).

II. FINANCING STRUCTURE AND MAIN RISKS

A. Financing instrument

- 2.1 The multiple works program involves the financing of similar but independent projects, and includes a representative sample of projects that can be executed under a design and build contract (paragraph 1.24). The Bank loan totals US\$100 million, financed from Ordinary Capital resources, with a projected execution period of five years as of the effective date of the loan contract. The disbursement schedule is provided in Table 3:

Table 3. Disbursement schedule (US\$ millions)

Source	Year 1	Year 2	Year 3	Year 4	Year 5	Total
IDB	2.48	18.91	28.16	30.08	20.37	100.00

- 2.2 Pursuant to document AB-2990, Bank disbursement of the loan proceeds will be subject to maximum limits: (i) up to 15% in the first 12 months; (ii) up to 30% in the first 24 months; and (iii) up to 50% in the first 36 months, as of the time the loan operation is approved by the Board of Executive Directors. These limits may not apply if the requirements established in the Bank's policy in this regard have been fulfilled, provided that the borrower has been notified in writing.

B. Environmental and social risks

- 2.3 In addition to the benefits generated in the areas of immigration, customs, and animal and plant safety control, the program will produce positive impacts in terms of improved traffic circulation, the clearance of goods, and the movement of persons.
- 2.4 The adverse socioenvironmental impacts associated with the border crossing construction works will be those typically seen in construction projects.³⁸ However, in addition to these impacts, the works at the Peñas Blancas crossing will necessitate the involuntary physical displacement of approximately a dozen families that currently reside in what will be that crossing's sterile zone.³⁹ The main impact during the operational phase will involve a decrease in informal employment and

³⁸ These include: (i) increased dust from debris and building materials; (ii) noise and gas emissions from earthmoving operations and vehicle traffic; (iii) vibrations associated with the mobilization of machinery; (iv) the potential for fuel/oil spills; (v) generation of solid waste; (vi) the potential for soil contamination; and (vii) brief interruptions of vehicle and border traffic.

³⁹ A socioeconomic assessment was conducted on the affected communities ([optional electronic link 14](#)) as part of the ESMR preparation process. Similar studies were conducted on the remaining border crossings included in the program.

- the resulting economic displacement of some 80 individuals at the Peñas Blancas crossing, as control over informal activities is stepped up⁴⁰ (paragraph 3.5).
- 2.5 In both phases, the impacts will be managed through standard procedures, such as the involuntary resettlement plan (IRP),⁴¹ pursuant to the provisions of Operational Policy OP-710 for projects involving the physical or economic displacement of the population. In view of the foregoing and in accordance with Operational Policy OP-703, this program is classified as an environmental category B operation.
- 2.6 **Gender considerations of the operation.** In accordance with Operational Policy OP-761 on Gender Equality in Development, this operation will include the following actions: (i) the training activities envisaged for public officials and operators in the new systems and border management and control processes will promote equal opportunities for the participation of men and women; (ii) if necessary, the public consultation process will include different events to ensure the participation of men and women; (iii) in cases of involuntary resettlement, the IRP will contribute to the economic empowerment of women by allowing new dwellings to be titled to female heads of household, or jointly to women and their partners; and (iv) any barriers to the equitable participation of women and men will be eliminated from the bidding documents.
- C. Fiduciary and execution risks**
- 2.7 The project team, together with the involved entities and the Ministry of Finance, identified the following risks associated with the nature of the operation: (paragraphs 1.7 and 1.18) and proposed mitigation measures: (i) insufficient consolidation of the executing agency's institutional framework; (ii) procurement management weaknesses; and (iii) a weak supervision system. Accordingly, the proposed execution model requires the program trustee or manager (paragraph 3.2) to form an executing unit of qualified professionals to conduct all procurement and contracting activities with the highest possible degree of efficiency. The model also requires ongoing monitoring of supervision tools, thus enabling appropriate monitoring and follow-up on its activities.
- 2.8 During preparation of the operation, other risks were also identified and mitigation measures were proposed: (i) opposition from neighboring communities; accordingly, in addition to the required public consultation, a program communication plan and plan of alternatives will be prepared; (ii) ill-timed or largely ineffective optimization and/or reengineering of processes and technology platform development; accordingly, the executing agency will designate a leader or technical counterpart for Component 2 and identify an individual at each institution

⁴⁰ In order to mitigate this potential impact and reduce the risk of opposition from the population, the project will provide for, *inter alia*, the implementation of a communication plan and the formation of working groups to search for alternative solutions that might mitigate the identified impact. More detail is provided in the ESMR ([required electronic link 6](#)).

⁴¹ As a foundation for preparing the IRP, an involuntary resettlement framework was prepared, establishing the general guidelines for structuring the IRP ([optional electronic link 15](#)).

- to serve as technical liaison; (iii) delays or postponement of legislative approval; accordingly, the processes will be monitored; (iv) delays in the execution of works; accordingly, administrative options for acquiring land will be examined; and (v) delays or postponement in making changes to customs and control regulations; accordingly, technical cooperation resources will be used to support the identification and implementation of the required regulatory changes.⁴²
- 2.9 **Investment sustainability.** Once the works of Component 1 are completed, Law 9154 (paragraph 1.7) ensures the sustainability of these investments by levying two taxes,⁴³ a portion of whose revenues will be used to cover the costs of works associated with the operation, maintenance, and expansion of land border crossings. The financial study demonstrating the sufficiency of these tax revenues to meet the debt obligations and costs associated with the operation and maintenance of land border crossings is included in [optional electronic link 16](#).
- 2.10 In order to reduce the risk of potential additional costs, as a condition for bidding on works, the executing agency will present the bidding documents for the Bank's no objection, which will include the technical specifications and infrastructure requirements agreed on previously among the user institutions (paragraph 3.6). This will reduce the likelihood that the bids received exceed the estimated budget or result in substantial changes to the design and/or number of works during construction.
- 2.11 To determine whether the amounts included in the budget were adequate, a study using a Monte Carlo simulation was conducted to estimate the likelihood that additional costs would be incurred in the works component ([optional electronic link 18](#)). The study included estimates of potential price escalation and additional costs attributable to modifications or contingencies. Its findings indicate a 95% probability that the cost of the works will remain within the amount budgeted, which includes funding provisions to cover contingencies (paragraph 1.28). The program budget includes these values.

⁴² RG-T2547. Implementation Support for Coordinated Border Management in Mesoamerica.

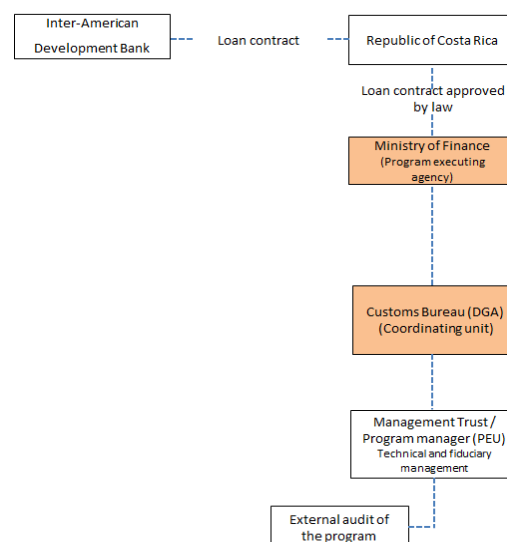
⁴³ The first is a US\$5 tax levied on all individuals who exit the national territory through a land border crossing, and the second is a US\$25 tax levied per export operation on exporters who use these border crossings.

III. IMPLEMENTATION AND MANAGEMENT PLAN

A. Summary of implementation arrangements

3.1 **Borrower and executing agency.** The borrower will be the Republic of Costa Rica and the executing agency will be the Ministry of Finance, through the Customs Bureau (DGA), which will be responsible for decision-making for program management and coordination. The DGA will be supported by an advisory unit, comprised of a professional, multidisciplinary technical support team led by a project manager. For execution issues related to interagency matters or infrastructure works, the opinion of the CPF will be consulted as established in the program's Operating Regulations.

Figure 2. Overview of execution



3.2 The executing agency, with the Bank's no objection, will sign a management trust agreement with an entity of the Costa Rican banking system⁴⁴ (the program trustee) and/or a management contract with the program manager who will support the executing agency in the program's technical and administrative management, which may include planning, procurement management, financial management, and program accountability. In this regard, the obligations assumed by the executing agency may be fulfilled through the trust and/or the manager, as applicable.

3.3 The program trustee or manager will form a PEU made up of at least the following: a general coordinator, a coordinator for each component, a planning specialist, a monitoring specialist, a procurement specialist, a financial management specialist, a socioenvironmental specialist, and a legal specialist. The responsibilities of the PEU will include: (i) compliance with the program Operating Regulations and fiduciary manual; (ii) preparation of terms of reference, bidding documents, bid evaluation reports, and other procurement-related documentation; (iii) performance and supervision of the procurement processes and signing of the respective contracts; (iv) preparation of the reports stipulated in the loan contract and other documents required by the executing agency; (v) performance of program monitoring and control; (vi) filing and custody of information and documentation concerning program management; (vii) ensuring compliance with the country's

⁴⁴ In the event that a public bank is selected as an extension of the public execution arrangements, the trustee will be selected in accordance with the rules governing hiring by public-sector institutions, pursuant to Article 2(c) of the Administrative Procurement Law (Law 7494 of 2 May 1995).

- applicable legal regulations as well as the Bank's regulations and policies; (viii) financial oversight of the program and commissioning of program audits; and (ix) securing the environmental authorizations required for the bidding and execution of the projects.
- 3.4 **Operating Regulations.** The program Operating Regulations are an operational instrument that describes the functions, criteria, and procedures for executing the program, including procurement, contracting, interagency coordination mechanisms, and an environmental and social management framework and instruments with guidelines for environmental management, and adoption of a system for the receipt and resolution of socioenvironmental complaints and claims. The Environmental and Social Management Report (ESMR) and the Involuntary Resettlement Framework, when applicable, will be part of the program Operating Regulations. The Operating Regulations will also include the selection criteria for the infrastructure projects defined in Component 1, which will be financed with program resources (paragraph 1.29). Any changes to the program Operating Regulations will require the Bank's no objection.
- 3.5 **The following will be special contractual conditions precedent to the first disbursement: (i) designation of the body that will act as the program coordination unit within the Customs Bureau (DGA), comprising a professional, multidisciplinary technical support team led by a project manager, pursuant to the conditions established in the program's Operating Regulations; and (ii) signing of a management trust agreement with an institution in the Costa Rican banking system or the contracting of a management entity for program execution. The loan provides for partial eligibility of up to US\$500,000, once the conditions established in the general conditions of the loan contract have been met.**
- 3.6 The following will be special execution conditions: (i) signing of the trust agreement with a Costa Rican banking system institution or engagement of a management entity to form a program execution unit (PEU); (ii) prior to soliciting bids on the construction works for each border crossing, the executing agency will present for the Bank's no objection: (a) the bidding documents, which will include the technical specifications and infrastructure requirements agreed on previously among the user institutions; (b) evidence that at least one public consultation has been held pursuant to Operational Policy OP-710; and (c) an involuntary resettlement plan (IRP), when required by a border crossing; and (iii) prior to the start of works: (a) any permits and approvals required by law will have been secured; and (b) 50% of the IRP will have been executed if involuntary resettlement is required.
- 3.7 **Procurement of goods, works, and consulting and nonconsulting services.** Such procurement will be performed in accordance with the Policies for the Procurement of Works and Goods Financed by the IDB (document GN-2349-9). With respect to consulting services to be financed, the Policies for the Selection and Contracting of Consultants Financed by the IDB (document GN-2350-9) of March 2011 will

apply. Supervision of procurement will be performed in accordance with the corresponding procurement plan ([required electronic link 2](#)).

- 3.8 **Retroactive financing and recognition of expenditures.** The Bank may provide retroactive financing for eligible expenses representing up to 3% of the total amount of the loan, charged against the loan proceeds. The aforementioned expenses will be incurred during the 18 months preceeding the loan approval date, but in no case will include expenses incurred prior to 21 January 2014, pursuant to conditions and procedures substantially similar to those set forth in the loan contract.
- 3.9 **Disbursements.** After securing approval from the CPF, the PEU will request disbursements based on estimates of the loan proceeds needed to execute the program's components, in accordance with the annual work plan and procurement plan. The loan will be disbursed under the advance of funds modality. The frequency of advances will be determined on the basis of the project's financial programming. The financial review of disbursement requests will be conducted on an ex post basis. Use of the National Treasury's single account principle is foreseen to manage the liquidity of the loan proceeds, since they are public revenues collected by the Government of the Republic.
- 3.10 **Audits.** The financial statements and the eligibility of expenditures under the program will be audited annually by an independent firm acceptable to the Bank, to be hired by the PEU. Audit services will be financed with the loan proceeds. The audited financial statements will be sent to the Bank no later than four months after the close of the each fiscal year of the executing agency, in accordance with the procedures and terms of reference previously agreed upon with the Bank.

B. Summary of monitoring and evaluation arrangements

- 3.11 Monitoring and evaluation of the program will take into account the targets and progress indicators defined jointly with the Ministry of Finance (see [Annex II](#)). The Bank will monitor the program through inspection visits and management missions. This monitoring will make it possible to examine: (i) progress made in terms of activities and contracting; (ii) the performance of the executing agency, the CPF, the advisory unit, the program trustee and/or manager, and the program executing unit; (iii) the budget for the following fiscal year; (iv) the execution schedule and performance indicators; and (v) progress in the implementation of the environmental and social management plan for each project.
- 3.12 Monitoring and evaluation of the program will be coordinated by the executing agency through the CPF. The program executing unit will have the appropriate systems to: (i) compile periodic information on physical and financial progress; and (ii) maintain, in an accessible and up-to-date format, relevant information on the execution of the program's activities and resources. The following instruments will be used to monitor the program: (i) the annual work plan, program execution plan, and procurement plan; (ii) semiannual program monitoring reports; (iii) loan review

report; (iv) audited financial statements; (v) midterm evaluation; and (vi) the project completion report.

- 3.13 The evaluation methodology to be used will consist of measuring the program's baseline outcome indicators before and after the interventions at each border crossing have been implemented to verify the achievement of the targets. An ex post economic evaluation will also be conducted, based on the ex ante model, in accordance with the monitoring and evaluation plan ([required electronic link 5](#)).

Development Effectiveness Matrix			
Summary			
I. Strategic Alignment			
1. IDB Strategic Development Objectives	Aligned		
Lending Program	-Lending to small and vulnerable countries -Lending to support regional cooperation and integration		
Regional Development Goals	-Trade openness (trade as percent of GDP) -Intraregional trade in LAC as percent of total merchandise trade		
Bank Output Contribution (as defined in Results Framework of IDB-9)	-Number of public trade officials and private entrepreneurs trained in trade and investment -Regional and sub-regional integration agreements and cooperation initiatives supported -Number of cross border and transnational projects supported (infrastructure and customs, etc.)		
2. Country Strategy Development Objectives	Aligned		
Country Strategy Results Matrix			
Country Program Results Matrix	GN-2805	The intervention is included in the 2015 Operational Program.	
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
	9.0		10
3. Evidence-based Assessment & Solution	9.6	33.33%	10
3.1 Program Diagnosis	3.0		
3.2 Proposed Interventions or Solutions	3.6		
3.3 Results Matrix Quality	3.0		
4. Ex ante Economic Analysis	10.0	33.33%	10
4.1 The program has an ERR/NPV, a Cost-Effectiveness Analysis or a General Economic Analysis	4.0		
4.2 Identified and Quantified Benefits	1.5		
4.3 Identified and Quantified Costs	1.5		
4.4 Reasonable Assumptions	1.5		
4.5 Sensitivity Analysis	1.5		
5. Monitoring and Evaluation	7.5	33.33%	10
5.1 Monitoring Mechanisms	2.5		
5.2 Evaluation Plan	5.0		
III. Risks & Mitigation Monitoring Matrix			
Overall risks rate = magnitude of risks*likelihood	Medium		
Identified risks have been rated for magnitude and likelihood	Yes		
Mitigation measures have been identified for major risks	Yes		
Mitigation measures have indicators for tracking their implementation	Yes		
Environmental & social risk classification	B		
IV. IDB's Role - Additionality			
The project relies on the use of country systems			
Fiduciary (VPC/FMP Criteria)			
Non-Fiduciary			
The IDB's involvement promotes additional improvements of the intended beneficiaries and/or public sector entity in the following dimensions:			
Gender Equality	Yes	The operation will guarantee that 50% of employees trained in new systems, management procedures, and border control, are women. In this sense, it will promote the equality of opportunities.	
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	Yes	Among the assistance activities provided are: support for the development of a proposal for an alternative execution mechanism based on a management trust; support for the Single Window for Foreign Trade; support to the Customs Direction; multiple studies about processes, management and infrastructure in four border crossings. Additionally, there is an ongoing support for the preparation of the National Logistics Plan. Other related operations include: RG-T2069, RG-T1982, RG-T2053, RG-T1660, RG-T1662, RG-T2267, and RG-T1744.	
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			

The program's objective is to strengthen the competitiveness of foreign trade in Costa Rica by updating the infrastructure, equipment, and systems at border crossings, seeking to ensure the efficient and effective coordination of controls by the responsible institutions. For this, the operation proposes to: (i) implement a system of physical and regulatory processes and tools for effective control; and (ii) provide border crossings with adequate infrastructure and equipment for the control of cargo and people.

Regarding the intervention logic, the document presents sound empirical evidence to support the problem's definition and its main causes. It also presents evidence on the effectiveness of similar interventions on the basis of studies that seek attribution in other regions. Since similar studies for the region or for similar contexts to Costa Rica do not exist yet, it is considered that there is only internal but no external validity with the evidence presented.

The results matrix presents indicators that are SMART and clearly identifies their means of verification and their targets. The economic analysis of the operation is solid and the evaluation is based on an ex post cost-benefit analysis and a before-and-after analysis. The novel collection of survey data that will allow measuring changes in the satisfaction of border crossing users, is outstanding. The risks identified are reasonable and include mitigation measures and metrics for monitoring.

RESULTS MATRIX

Objective	The objective of the program is to strengthen Costa Rica's competitiveness by modernizing its border infrastructure, equipment, and systems, with a view to ensuring the efficient and effective coordination of the control activities performed by the border control agencies. The specific objectives are to: (i) implement a physical and regulatory system of effective control tools and processes; and (ii) provide Costa Rica's border crossings with the appropriate infrastructure and equipment to effectively implement control tools and processes for cargo and people. This objective is consistent with efforts under way by the countries of Central America to consolidate their regional integration process.
------------------	---

IMPACTS

Indicator/unit of measure process	Baseline (2015)	Final target (2020)	Source/means of verification	Observations
Impact: Increased competitiveness				
Global Competitiveness Index (ranking)	4.4 (51/144)	4.47	WEF's Global Competitiveness Report 2014-2015	This index makes it possible to monitor a country's ranking, and competitiveness and productivity trends on a scale of 1 to 7 (144 countries).
Burden of customs procedures	3.9 (78/144)	4.30		Evaluates qualitatively, on a scale of 1 to 7, the efficiency of customs procedures for the entry and dispatch of goods. The burden of customs procedures, an index, is part of the Global Competitiveness Index, and is one of 16 indicators included under the Goods Market Efficiency pillar.

OUTCOMES

Indicator/unit of measure process	Process	Baseline (2014)	Final target (2020)	Source/means of verification	Observations
Expected outcome 1. Improved border crossing efficiency					
Peñas Blancas border crossing¹					
Border crossing's maximum cargo processing capacity (CTU/day) ²	Import	431	886	Baseline data and targets	Measures border crossing's theoretical maximum processing capacity. This level is quantified via a simulation that saturates the system without collapsing it.
	Export	595	677	Consulting report ³ Baseline and process simulation	
Total cost of quarantine control process ⁴ (US\$/procedure)	Import	428.4	287.6	Means of verification Ex post evaluation report, pursuant to the methodology used to obtain the baseline	These indicators reflect the total costs incurred by all actors directly involved in the process (users and operators). It is calculated as the total average cost per procedure in terms of personnel, logistics operators, office supplies, permits and authorizations, and fuel. It represents the State's salary costs for the officials involved in the process, based on the average time spent working.
	Export	29	18.9		
Total cost of nonquarantine control process ⁵ (US\$/procedure)	Import	142.3	113.8		
	Export	8.9	5.3		
Total average time to complete border crossing cycle (minutes/CTU).	Import	635.7	64.2		This is the average time it takes a transport unit to cross the border at a border crossing post, including all the pertinent controls and wait times. This indicator considers the time spent from the time a CTU enters the line of the first control until it obtains permission from customs to leave the primary zone and continue on to its destination. It does consider the six-hour nighttime window (12 a.m. to 6 a.m.) during which the border crossing is closed.
	Export	135.3	24.5		
	Inbound transit	124.2	49.1		
	Outbound transit	126.5	21.3		
	Inbound empty CTUs	123.3	48.9		
	Outbound empty CTUs	126.5	22.1		
Average wait time in line before initiation of cargo control process sequence (minutes/CTU).	Export	51.7	1.2		This is the average time CTUs spend in line from the time they enter the line until they are attended at the first control station (immigration, in the case of Peñas Blancas).
Average passenger crossing time (minutes/passenger).	From CR to NI	19.9	6.4		These indicators measure the average total time a tourists must spend to complete the necessary immigration procedures to cross the border crossing station on foot in each direction.
	From NI to CR	20.2	6.4		

¹ A similar set of indicators has been proposed for the remaining border crossings to be financed by the program.

² Motorized cargo transport unit (CTU) or truck.

³ Per this document, "consulting report" refers to the final report of the consulting firm responsible for preparing the baseline and simulation of conditions "with the project" for each of the pertinent Costa Rican border crossings.

⁴ The term "quarantine control" is defined as control on the movement of products that are subject to regulations requiring their observation, inspection, testing, and/or additional treatment in order to prevent introducing or spreading plant or animal pests.

⁵ Nonquarantine control is applied to goods that do not present a potential risk for spreading plant or animal pests.

Expected outcome 2. Improved customs management effectiveness at border crossings						
Annual percentage of customs operations providing advance electronic transmission of information (%).	Import		10%	50%	Consulting report	This advance declaration is the single customs declaration (DUA) form, which is filled out and transmitted electronically to the TICA system. This can be done at the time the outbound transport unit departs customs in the country of origin.
Percentage of technical notes transmitted through the VUCE 2.0 platform (%)	Export		26	80	PROCOMER statistics on VUCE 2.0	Currently, VUCE encompasses 44 technical notes or certificates (23 for export processes and 21 for imports). For VUCE 2.0, the target is to automate at least 80% of processes.
	Import		26	80		
Percentage of physical, intrusive, or nonintrusive inspections performed based on declarations presented in the red or yellow channels (%)	Imp.	Red	6%	10%	Bureau of Customs' (DGA) Office of Customs Procedures	This is important for effective control; risk analysis is used to determine which declarations are subjected to documentary review (yellow) or physical inspection (red).
		Yellow	4%	2%		
	Exp.	Red	0.97%	2%		
Average clearance time in the red channel (hours)	Import		25.3	2	Consulting report	Represents the average time spent in customs valuation or physical inspection of goods in import processes for control purposes.
Expected outcome 3. Improved perception of service quality						
Index of user satisfaction with border crossings	Truck drivers		43.5	90	Consulting report. Satisfaction survey	The index of overall satisfaction is a weighted average, on a scale of 0 to 100, of the following critical aspects of service: access lanes, infrastructure, technology and equipment, service quality, socioeconomic and environmental considerations, costs, security, and overall assessment.
	Tourists		76.0	90		

OUTPUTS

Indicator	Unit of measure	Baseline 2015	Midterm measurements					Final target	Source/ means of verification	Observations
			1	2	3	4	5			
Component 1. Investment in border infrastructure and equipment										
Construction and rehabilitation of infrastructure at the Peñas Blancas border crossing completed ⁶	Border crossing	0			1			1	PEU report	-
Peñas Blancas border crossing equipped	Border crossing	0			1			1	PEU report	Automated control centers, laboratories, and nonintrusive control measures implemented
Construction of infrastructure at other border crossings competed (i.e. Las Tablillas, Paso Canoas, and Sixaola).	Border crossing	0			1 ⁽⁷⁾		2 ⁽⁸⁾	3	PEU report	Involves works that are not part of the sample
Other border crossings equipped (i.e. Las Tablillas, Paso Canoas, and Sixaola)	Border crossing	0			1 ⁽⁹⁾		2 ⁽¹⁰⁾	3	PEU report	Automated control centers, laboratories, and nonintrusive control measures implemented
Percentage of properties titled to female heads of household or, in the case of couples, in both names.	%	0						100%	PEU report	During the involuntary resettlement process.
Component 2. Modernization and integration of border processes										
Subcomponent 2.1. Modernization of the customs information system										
Regulatory reform projects impacting customs control processes	Number of projects	0		1	2	2		5	Documents validated by the Ministry of Finance	Adjustments to current regulations with respect to best practices and new trade facilitation provisions (Bali Trade Facilitation Agreement).
Reengineering of customs control processes and systems implemented (TICA)	Number of systems	0				1		1	Consulting report	The report will review the current DGA study and compare the advances.
Risk management system coordinated and implemented in all border control agencies	Number of systems	0					1	1	PEU report	The risk management system comprises a set of rules, work processes, offices, and information technology tools for data processing.

⁶ The planned interventions for Peñas Blancas include the use of some existing and newer buildings that may require improvements and adjustments for their use.

⁷ Las Tablillas border crossing (CR-NI).

⁸ Paso Canoas and Sixaola border crossings (CR-PA).

⁹ Las Tablillas border crossing (CR-NI).

¹⁰ Paso Canoas and Sixaola border crossings (CR-PA).

Number of integration agreements and regional and subregional cooperation initiatives supported	Agreements	0					12	12 ⁽¹¹⁾	COMEX trade agreements in force	Number of trade agreements in which Costa Rica acquired new commitments in the areas of trade facilitation and customs procedure transparency that will take shape in the implementation of the Border Integration Model (BIM).
Entrepreneurs or public officials supported with trade and investment assistance and training	Individuals or companies trained	0		50	150	275	225	700		This sector indicator reflects the total number of public officials and entrepreneurs who benefited from training activities.
(a) Number of microenterprises and medium-sized companies trained in how to obtain AEO certification	Companies trained	0		50	100	100		250	PEU report	Training for microenterprises and medium-sized businesses in the AEO program.
(b) Number of private operators trained in new systems, and management and inspection processes (TICA and VUCE)	Individuals trained	0			50	100	150	300	PEU report	Training for private operators in the new systems and processes to be implemented.
(c) Number of public officials trained in new systems and processes (TICA and VUCE), including risk and inspection.	Public officials trained	0				75	75	150	PEU report	Training for border operational personnel. Participation reports will be broken down by gender.
Percentage of public officials and operators who are women trained in new systems and management and inspection processes (TICA and VUCE)	%	0						50%	PEU report	Border training received by women. Participation reports will be broken down by gender.
Subcomponent 2.2. Expansion and integration of institutional systems										
VUCE expanded and records systems integrated among 16 State institutions	Number of systems	0					1	1	PEU report	For more information about VUCE, consult the monitoring and evaluation plan.
Subcomponent 2.3. Border crossing station management system										
Management control systems developed and implemented at all border crossings	Number of systems	0			2		2	4	PEU report	For more information about the management control systems, consult the monitoring and evaluation plan.

¹¹ The target corresponds to Costa Rica's agreements with: the World Trade Organization, the Central American Common Market, the Dominican Republic-United States-Central America Free Trade Agreement (CAFTA-DR), the Central America-Mexico Free Trade Agreement, the European Union-Central America Association Agreement, free trade agreements with the European Free Trade Association, and free trade agreements with Canada, Chile, China, Colombia, Panama, and Peru.

FIDUCIARY AGREEMENTS AND REQUIREMENTS

Country: Costa Rica
Project number: CR-L1066
Name: Border Integration Program of Costa Rica
Executing agency: Ministry of Finance
Prepared by: Jorge Luis González (FMP/CCR) and Andrés Suárez (FMP/CCR)

I. THE COUNTRY'S FIDUCIARY CONTEXT

- 1.1 The fiduciary evaluation was based on meetings with key personnel of the participating agencies,¹ as well as meeting with consultants and the project team.
- 1.2 The trust mechanism was examined in the context of analogous situations associated with the Education Infrastructure Construction and Equipment (CR-L1053) program and the Infrastructure Transport Program (PIT) (CR-L1032).
- 1.3 According to the evaluation of Costa Rica's government procurement system, performed by the country in July 2009, the main characteristic of that system is its high degree of dispersion. Although a single law governs all procurement processes,² each contracting unit issues its own rules,³ bidding documents differ from buyer to buyer, and there is no unified procedures manual. Many autonomous agencies have their own special procurement rules, which undoubtedly exacerbate dispersion from the regulatory and execution standpoints. Other shortcomings observed in the administrative procurement system include marked rigidity, excessive regulation, the system of ex ante controls, and a procedure for challenging decisions involving the Office of the Comptroller General, resulting in long waits for final award decisions. The public procurement system appears solid in terms of regulations and control, but it is inefficient in

¹ Including the Ministry of Finance's Bureau of Public Credit, the National Treasury, and the National Budget Office.

² The Administrative Procurements Law governs procurement by the organs of the Executive Branch, the Judiciary, the Legislative Branch, the Supreme Electoral Tribunal, the Office of the Comptroller General, the Office of the Ombudsperson, decentralized subnational and institutional sectors, non-State public agencies, and public enterprises.

³ Article 109 of the Administrative Procurement Law, as amended, establishes that each of the organs or entities subject to that law may issue supplementary regulations as needed to improve the performance of administrative procurement activities.

practice and its outcomes are likely not very economical; its main limitation is extreme dispersion of procurement operations.

- 1.4 With regard to country financial systems, which were analyzed using the Public Expenditure and Financial Accountability (PEFA) methodology, in 2010 it was concluded that, overall, public financial management in Costa Rica is satisfactory. The report essentially covered budget expenditures approved by the Legislative Assembly, which are the expenditures of the central government. Use of the treasury subsystem's single account to make the payments for Bank-financed projects reduces the greatest fiduciary risks associated with payments, cash flow management, and reconciliations. The Office of the Comptroller General also provides reasonable scrutiny of public finances.

II. THE EXECUTING AGENCY'S FIDUCIARY CONTEXT

- 2.1 This operation delegates responsibility for the program's execution to the Ministry of Finance, which will act as the executing agency.
- 2.2 The executing agency, with the Bank's no objection, may sign: (i) a trust agreement with a state-owned bank;⁴ and/or (ii) a management contract with a program manager to support the executing agency in the program's technical and administrative management, which may include planning, procurement management, financial management, and program accountability. The trustee or manager selected for the program will form a program executing unit (PEU) comprised of the technical specialists necessary to ensure the program's adequate performance.⁵
- 2.3 The executing agency will be the Ministry of Finance, through the Customs Bureau (DGA), which will be responsible for decision-making for program management and coordination. The DGA will be supported by an advisory unit, comprised of a professional, multidisciplinary technical support team led by a project manager. For execution issues related to interagency matters or infrastructure works, the opinion of the CPF will be consulted as established in the program's Operating Regulations.
- 2.4 The trust agreement is regulated by the country's Commercial Code, whereas matters pertaining to publicly funded trusts are managed in accordance with technical standards issued by the Office of the Comptroller General, in strict coordination with trustors and executing units.
- 2.5 This arrangement is expected to prevent delays in the procurement and contracting processes, and facilitate the timely advancement of the program.

⁴ In the event that a public bank is selected as an extension of the public execution arrangements, the trustee will be selected in accordance with the rules governing hiring by public-sector institutions, pursuant to Article 2(c) of the Administrative Procurement Law (Law 7494 of 2 May 1995).

⁵ The PEU will be made up of at least the following: a coordinator general, a coordinator for each component, a planning specialist, a monitoring specialist, a procurement specialist, a financial management specialist, a socioenvironmental specialist, and a legal specialist.

III. FIDUCIARY RISK EVALUATION AND MITIGATION MEASURES

- 3.1 The project team, together with personnel from the participating entities and the executing agency, identified the following main fiduciary risks:
- a. Weak institutional framework of the institution responsible for executing the program. Since the success of the program's execution will hinge on the proper functioning of the proposed institutional framework, this risk is directly linked to fiduciary considerations. Because this operation's PEU will not report to a public sector agency, but rather to an established trust, the risk is considered to be duly controlled. For that reason, risk is considered to be medium until such time as an assessment can be made of the executing unit in operation.
 - b. Weak program procurement management. The execution mechanism selected to implement this operation provides for a PEU made up of qualified professionals to carry out all procurement and contracting activities with the highest possible degree of efficiency. Accordingly, this risk has been qualified as low.
 - c. Weak system of program execution supervision. The execution mechanism selected to implement this operation provides for better management of supervision schemes and tools, facilitating adequate monitoring and follow-up on actions. Consequently, this risk is considered low.
- 3.2 The Financial System Supervisory Council (CONASSIF) approved the regulations governing the public offer of securities, published in Official Gazette 88 of May 2006.⁶ These regulations establish that each trust must have its own executing unit, comprised of professionals or specialized firms, which will perform the envisaged activities, thus ensuring that the trustee does not directly execute these activities. The PEU may engage a firm specializing in the required services, thereby decreasing certain types of financial management risk. The Bank will support the contracted PEU professionals in the procurement and financial aspects of projects executed with external financing.
- 3.3 Taking into account these conditions, the mitigation measures to be implemented, and existing controls, the operation's overall level of fiduciary risk is considered to be low, and will remain at that level until such time as an assessment has been made of the executing unit in operation.

IV. AGREEMENTS AND REQUIREMENTS FOR PROCUREMENT EXECUTION

- 4.1 All procurement of works, goods, nonconsulting services, and consulting services are to be included in the procurement plan approved in advance by the IDB through the Procurement Plan Execution System (SEPA),⁷ pursuant to the special conditions of the loan contract.

⁶ Title IV, Securities derived from Public Works Development Trusts, Article 81, Management Unit.

⁷ Or any other that the IDB indicates may be used in its stead.

- 4.2 **Procurement of works, goods, and nonconsulting services.** Contracts for works, goods, and nonconsulting services⁸ for this program subject to international competitive bidding (ICB) will use standard bidding documents issued by the Bank. In the case of bidding processes for goods and nonconsulting services that are not subject to ICB, standard documents or those agreed on with the Bank will be used.
- 4.3 Procurement financed with local counterpart funds, such as the services of technical and administrative personnel, and operating and maintenance expenses, if necessary, will be governed by local procedures, provided they do not conflict with the Bank's principles. In such cases, the following will be verified: (i) strict compliance with applicable local legislation; (ii) fulfillment of the program's objectives and technical requirements; (iii) satisfactory quality and compatibility with the rest of the program; (iv) timely delivery or completion; (v) costs do not adversely affect the program's economic and financial viability; and (vi) observance of the highest ethical standards.
- 4.4 No contracts for the procurement of goods, services, or works require contractor prequalification. The processes to be used for such procurement are listed in the initial procurement plan. The PEU's sector specialist will be responsible for reviewing, during the preparation of the bidding processes, the technical specifications of the works and goods to be procured. The sector specialist will also indicate if the PEU needs external support to evaluate the bids, taking into account the nature and technical complexity of the procurement processes in question.
- 4.5 **Selection and contracting of consultants.** The consulting services contracts for the program are listed in the procurement plan and will be executed using the standard request for proposals (RFP) issued by the Bank.
- a. **Selection of consulting firms.** The project will use the Bank-issued standard RFPs.
 - b. **Shortlist of consulting firms.**⁹ This list may be composed entirely (100%) of national firms¹⁰ for contracts valued below the Bank's thresholds¹¹ for Costa Rica.
 - c. **Selection of individual consultants.** This will take into account the candidates' qualifications to perform the job, and will involve comparison of the qualifications of at least three candidates.
- 4.6 The program's sector specialist will be responsible for reviewing the terms of reference for the consulting services contract. The sector specialist will also

⁸ According to IDB procurement policies, nonconsulting services are treated similarly to goods.

⁹ In accordance with Section V of the Policies for the Selection and Contracting of Consulting Services Financed by the IDB, it is not necessary to use the shortlist or the standard RFP for the selection of individual consultants.

¹⁰ Foreign firms are not barred from participating.

¹¹ VPC/PDP sets these thresholds.

indicate if the PEU needs external support to evaluate the bids, taking into account the nature and technical complexity of the procurement processes in question. In some cases, contracting of individual consultants may include local or international advertising to form a shortlist of qualified individuals.

- 4.7 **Retroactive financing and recognition of expenditures.** The Bank may provide retroactive financing for eligible expenses representing up to 3% of the total amount of the loan, charged against the loan proceeds. The aforementioned expenses will be incurred during the 18 months preceeding the loan approval date, but in no case will include expenses incurred prior to 21 January 2014, pursuant to conditions and procedures substantially similar to those set forth in the loan contract.
- 4.8 **Procurement supervision.** Below is a summary of the procurement methods to be used in the proposed program.

Table 1. Procurement procedure, by threshold amount

Type of investment	Threshold amount (US\$ thousands)	Procurement procedure	IDB review method
Works	Greater than or equal to 3,000	ICB	ex ante
	Between 250 and 3,000	NCB or shopping	ex post
	Less than 250	Shopping	
Goods and nonconsulting services	Greater than or equal to 250	ICB	ex ante
	Between 50 and 250	NCB or shopping	ex ante
	Less than 50	Shopping	ex post
Consulting services / consulting firm	Greater than or equal to 200	Shortlist of six firms with wide geographical representation (international and national advertising)	ex ante
	Less than 200	Shortlist of six firms, which may be national consultants (national advertising)	ex post
Individual consulting services	Greater than or equal to 50	At least three candidates	ex ante
	Less than 50		ex post*
Direct contracting of goods, works, and consulting and nonconsulting services			ex ante
The Bank may choose ex ante review for some of these processes, i.e. for key personnel of the PEU.			

- 4.9 **Main procurement activities.** See procurement plan ([optional electronic link 2](#)).
- 4.10 In view of the information above, program supervision requires inspection visits every six months to the executing agency for ex post review of procurement. Ex post review reports will include at least one physical inspection visit,¹² chosen from among the procurement processes subject to ex post review (no less than 10% of the contracts reviewed must be physically inspected).

¹² Inspections are to verify the existence of procurement; the sector specialist will be responsible for verifying quality and compliance with specifications.

V. FINANCIAL MANAGEMENT AGREEMENTS AND REQUIREMENTS

- 5.1 The program's financial management agreements and requirements are set out in document OP-273-2 and are summarized below:
- 5.2 **Disbursements and cash flow.** Disbursements of loan proceeds are subject to the requirements of the program's financial plan and will be made by means of advances of funds. The frequency of such advances will be determined in accordance with financial programming. The Bank may make a new advance of funds when supporting documentation has been submitted for at least 80%—or a similar percentage in exceptional cases—of total funds disbursed as advances. Disbursement requests will be subject to ex post financial review. The National Treasury's single account principle will be used to manage the liquidity of the loan proceeds, even for the trust modality, since the latter are public revenues collected by the Government of the Republic. With respect to the use of funds, opening a bank account exclusively for the loan proceeds is recommended.
- 5.3 Pursuant to document AB-2990, the Bank's disbursement of the loan proceeds will be subject to the following maximum limits: (i) up to 15% in the first 12 months; (ii) up to 30% in the first 24 months; and (iii) up to 50% in the first 36 months, as of the date the loan operation is approved by the Board of Executive Directors. These limits may become inapplicable in the event that the Bank's policy requirements regarding such limits are fulfilled, provided that the borrower has been notified in writing.
- 5.4 **Accounting and internal control.** In order to use the trust instrument, the trustee must be a regulated bank subject to the accounting regulations applicable to entities supervised by Costa Rica's Office of the Superintendent of Financial Institutions (SUGEF) (SUGEF Agreement 34-2002), which is responsible for regulating the adoption and application of the International Financial Reporting Standards (IFRS) and the related interpretation committees (i.e. the Standards Interpretations Committee and IFRS Interpretation Committee). It will be the PEU's responsibility to maintain a suitable system of internal and accounting controls for program execution, in order to faithfully reflect trust transactions and facilitate the timely preparation of financial reports requested by the Bank. The PEU will also allow the Bank, at any time, to conduction inspections and review the records and documents deemed pertinent.
- 5.5 **External audit.** The executing agency will submit audited reports on the program annually and at the end of the program, demonstrating the sources and uses of funds, and differentiating the resources from the Bank, the counterpart, and other sources. The reports will also cover expenditure of resources for execution, the cash balances under the responsibility of the PEU, explanatory notes on its accounting policies, and a reconciliation for the single account at the close of each fiscal year. These audited reports are to be submitted within 120 days after the date of the annual closing (31 December), and the final report within 120 days after the last disbursement, as indicated in document OP-273-2. The PEU will

- ensure that the funds are reserved for the audit services and available for that purpose until the program closing date.
- 5.6 The report will include the external auditors' opinion on all income and expenditures incurred in the trust during program execution, and will also detail the eligibility of each expenditure, to ensure that the Bank resources have been expended for the purposes specified in the loan contract. The audits will be contracted, and their scope determined, in accordance with the terms of reference agreed upon by the PEU and the Bank. Multiyear contracts may be used for the audits, subject to annual review. The terms of reference for each audit period, as well as the eligibility of the audit firm, will be agreed on with the Bank. The total cost of these audits may be financed with IDB resources.
- 5.7 **Financial supervision plan.** Supporting information for expenditures will be reviewed after resources have been disbursed by the Bank. Given the low level of financial risk, reviews of supporting documentation for disbursement requests will occur at least semiannually. During the fiduciary supervision visit to the PEU, and depending on the findings of the ex post evaluation of disbursements, the regularity of fiduciary visits may vary, if necessary.
- 5.8 Audits will be performed annually, and the final audit will contain essentially an opinion of the income statement, which will cover the points referred to in the relevant section. The Bank will provide ongoing training on the ex post review method and the disbursement process to the finance and procurement specialists of the executing agency, trustee, and manager, recommending effective maintenance of appropriate internal controls.
- 5.9 **Execution mechanism.** The entity selected to provide technical support to the executing agency, be it the trustee or the management entity, will have a unit, which will be charged with administrative, technical, legal, and financial management, as well as follow-up, control, and monitoring of program implementation, pursuant to the terms of the loan contract. It will have an accounting and internal control system that enables it to produce the financial reports requested by the Bank and to effectively manage program activities.