

CONFORMED COPY

LOAN NUMBER 7594-CR

Loan Agreement

(Catastrophe Deferred Drawdown Option (CAT DDO) Loan)

between

REPUBLIC OF COSTA RICA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 10, 2008

LOAN AGREEMENT

Agreement dated November 10, 2008, entered into between REPUBLIC OF COSTA RICA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I. A of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of sixty five million Dollars (\$65,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.

- 2.06 (a) Except as otherwise provided in paragraph (b) of this Section, the principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- (b) The Bank and the Borrower may at any time agree on repayment provisions different from those set out in Schedule 2 to this Agreement for the then Unwithdrawn Loan Balance provided that: (i) the average maturity of each Withdrawal of an amount of such Unwithdrawn Loan Balance does not exceed 18 years from the Maturity Fixing Date and the final maturity of such Withdrawal does not exceed 30 years from the Maturity Fixing Date (or such other average maturity and/or final maturity as may be generally applicable to loans made by the Bank to the Borrower at the time of such agreement); and (ii) such repayment provisions have been agreed between the Borrower and the Bank prior to the Withdrawal Date of any such Withdrawal.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Amounts of the Withdrawn Balance that have been repaid or prepaid in accordance with this Loan Agreement prior to the Closing Date shall be re-credited to the Loan Account and be made available for further withdrawal by the Borrower. In the event that any amount prepaid has been converted under a Currency Conversion, the amount re-credited to the Loan Account shall be denominated in the original Loan Currency and equal to the amount prior to such Conversion.
- 2.09. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01 The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.10 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower, with the assistance of CNE, shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation which would have the effect of materially reversing the objectives of the Program or any action taken under the Program.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 90 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Legal Opinion referred to in Section 9.02 of the General Conditions shall be issued by the Borrower's General Attorney's Office (*Procuraduría General de la República*).
- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of signature of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on March 16, 2010.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Minister of Finance.

6.02. The Borrower's Address is:

Ministerio de Hacienda
Edificio Central
Avenida 2 entre Calle 1 y 3
Diagonal al Teatro Nacional
San José
Costa Rica

Facsimile:
(506) 2255-4874

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

| | | |
|-------------------------------|------------------------------|----------------|
| Cable address: | Telex: | Facsimile: |
| INTBAFRAD Washington, D.C. | 248423(MCI) or 64145(MCI) | 1-202-477-6391 |

AGREED at Washington, D.C., United States of America and San José, Costa Rica, as of the day and year first above written.

REPUBLIC OF COSTA RICA

By /s/ Guillermo Zúñiga
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Laura Frigenti
Authorized Representative

SCHEDULE 1

Availability of Loan Proceeds

Section I. Actions under the Program

- A. Actions Taken Under the Program.** The actions taken by the Borrower under the Program include the following:
1. The Borrower has adopted the National Emergencies and Risk Prevention Law and the Executive Decree No. 34361 setting forth regulations to said National Emergencies and Risk Prevention Law.
 2. The Borrower, through CNE, has complied with the provisions of Article 46 of the National Emergencies and Risk Prevention Law, through the collection, administration and transfer to the National Emergency Fund of an amount equivalent to 3% of the financial surplus or profit earned by all governmental institutions referred to in said Article 46 during the periods of January 1, 2007 to December 30, 2007 and January 1, 2008 to August 4, 2008, to support the National Risk Management System.
 3. The Borrower, through MIDEPLAN, has incorporated its Disaster Risk Management in the Borrower's 2006-2010 National Development Plan.
 4. The Borrower has incorporated risk management considerations as part of the screening process of MIDEPLAN national investment projects.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. Allocation of Loan Amounts.** The Loan may be withdrawn in a single tranche upon request by the Borrower. The Borrower shall be entitled to withdraw the Single Tranche from the Loan Account in support of the Program in various Withdrawals. The allocation of the amounts of the Loan to this end is set out in the table below:

| Allocations | Amount of the Loan Allocated (expressed in Dollars) |
|---------------------|--|
| Single Tranche | 65,000,000 |
| TOTAL AMOUNT | 65,000,000 |

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

D. Withdrawal of Loan Proceeds.

1. No withdrawal shall be made of the Tranche unless the Bank is satisfied, based on evidence satisfactory to it, that a state of emergency exists in the Borrower's territory as a result of a Natural Disaster.
2. Notwithstanding the foregoing, if, at any time prior to the receipt by the Bank of a request for withdrawal of an amount of the Loan, the Bank determines that a review of the Borrower's progress in carrying out the Program is warranted, the Bank shall give notice to the Borrower to that effect. Upon the giving of such notice, no withdrawals shall be made of the Unwithdrawn Loan Balance unless and until the Bank has notified the Borrower of its satisfaction, after an exchange of views as described in paragraphs (a) and (b) of Section 3.01, with the progress achieved by the Borrower in carrying out the Program.

E. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower at the Central Bank (*Banco Central de Costa Rica*) and acceptable to the Bank;
2. the Borrower shall: (a) ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank; and (b) provide the Bank with a written confirmation within two weeks of this transaction; and
3. any transfer of any amount of the Loan from the account referred to paragraph 1 of this Section shall be: (a) compatible with the manner in which the Borrower is as of the date of this Agreement applying its *Sistema de Caja Única*, regulated under articles 66 and 67 of the Borrower's Financial Management and Public Budget Law No. 8131; and (b) for said compatibility to be maintained the Borrower must apply said regime in a manner acceptable to the Bank.

F. Audit. Upon the Bank's request, the Borrower shall:

1. have the account designated by the Borrower pursuant to Part E. 1 of this Section audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank;
2. furnish to the Bank as soon as available, but in any case not later than six months after the end of the Borrower's fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Bank shall reasonably request; and
3. furnish to the Bank such other information concerning the account and its audit as the Bank shall reasonably request.

G. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

H. Closing Date. The Closing Date is October 30, 2011.

SCHEDULE 2

Amortization Schedule

1. Subject to the provisions of paragraph 2 of this Schedule, the Borrower shall repay each Disbursed Amount in semiannual installments payable on each April 15 and October 15, the first installment to be payable on the eleventh (11th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount and the last installment to be payable on the fifty-ninth (59th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment except for the last one shall be equal to one-forty-ninth (1/49) of the Disbursed Amount. The last installment shall be equal to the remaining outstanding amount of the Disbursed Amount.
2. The Bank shall notify the Loan Parties of the amortization schedule for each Disbursed Amount promptly after the Maturity Fixing Date for the Disbursed Amount.
3. Notwithstanding the provisions of paragraphs 1 through 3 of this Schedule, in the event of a Currency Conversion of all or any portion of a Disbursed Amount to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
4. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency.

APPENDIX

Section I. Definitions

1. “CNE” means *Comisión Nacional de Prevención de Riesgos y Atención de Emergencias*, the Borrower’s National Risk Prevention and Emergency Management Commission established and operating pursuant to the National Emergencies and Risk Prevention Law.
2. “Disaster Risk Management” means the disaster risk management process referred to in Article 4 of the National Emergencies and Risk Prevention Law.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

| Group | Sub-group | Description of Item |
|-------|-----------|---|
| 112 | | Alcoholic beverages |
| 121 | | Tobacco, un-manufactured, tobacco refuse |
| 122 | | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525 | | Radioactive and associated materials |
| 667 | | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems) |

| Group | Sub-group | Description of Item |
|--------------|------------------|--|
| 971 | | Gold, non-monetary (excluding gold ores and concentrates) |

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
4. Executive Decree No. 34361, means the Borrower’s Executive Decree (*Reglamento*) No. 34361, published in the Borrower’s Official Gazette No. 52, on March 13, 2008, setting forth regulations to the National Emergencies and Risk Prevention Law, as amended to the date of this Agreement.
 5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
 6. “MIDEPLAN” means *Ministerio de Planificación Nacional y Política Económica*, the Borrower’s Ministry of Planning and Economic Policy.
 7. “National Development Plan” means the Borrower’s national development plan for the period 2006-2010 set forth in Executive Decree 33151 of May 18, 2006 and Executive Decree 33178 of June 14, 2006.
 8. “National Emergencies and Risk Prevention Law” means the Borrower’s Law No. 8488 for national emergencies and risk prevention, published in the Borrower’s Official Gazette No. 8 on January 11, 2006, as amended to the date of this Agreement.
 9. “National Emergencies Fund” means the fund established pursuant to article 43 of the National Emergencies and Risk Prevention Law.
 10. “National Risk Management System” means the system referred to in Article 6 of the National Emergencies and Risk Prevention Law.

11. “Natural Disaster” means any disaster caused by natural hazards included in Article 4 of the National Emergencies and Risk Prevention Law.
12. “Program” means the program of actions, objectives and policies designed to support two key policy areas: (i) strengthening of the Borrower's disaster risk management institutional and legal framework; and (ii) mainstreaming disaster risk management in the National Development and Investment Programs, and set forth or referred to in the letter dated August 1, 2008 from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
13. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank's representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their

respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Fixed Spread” is modified to read as follows:

“Fixed Spread” means, for each Withdrawal, the Bank’s fixed spread for the Loan Currency of the Withdrawal in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; provided, that: (a) for purposes of determining the Default Interest Rate, pursuant to Section 3.02 (d), that is applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount; (b) for purposes of fixing the Variable Spread pursuant to Section 4.02, “Fixed Spread” means the Bank’s fixed spread for the Loan Currency in effect at 12:01 a.m. Washington, D.C. time on the Conversion Date; and (c) upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance pursuant to Section 4.04 (a), the Fixed Spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines.

(d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

(e) The term “Variable Spread” is modified to read as follows:

“Variable Spread” means, for each Withdrawal and each Interest Period: (1) the Bank’s standard variable spread for Loans in effect at 12:01 a.m. Washington, D.C. time, on the Withdrawal Date; (2) minus (or plus) the weighted average margin, for the Interest Period, below (or above) LIBOR, or other reference rates, for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by it to fund loans that carry interest at a rate based on the Variable Spread; as reasonably determined by the Bank and expressed as a

percentage per annum. In the case of a Loan denominated in more than one Currency, “Variable Spread” applies separately to each of such Currencies.

(f) A new term “Withdrawal” is added to read as follows:

“Withdrawal” means each amount of the Loan withdrawn by the Borrower from the Loan Account pursuant to Section 2.01.

(g) A new term “Withdrawal Date” is added to read as follows:

“Withdrawal Date” means, for each Withdrawal, the date on which the Bank pays the Withdrawal.