

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7686-CR

Loan Agreement

(Public Finance and Competitiveness Development Policy Loan
with Deferred Drawdown Option)

between

REPUBLIC OF COSTA RICA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 11, 2009

Public Disclosure Authorized

LOAN NUMBER 7686-CR

LOAN AGREEMENT

Agreement dated June 11, 2009, 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 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 \$500,000,000 (five hundred million Dollars), 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.
- 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment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 30 (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 Borrower may at the time of requesting a Withdrawal also request repayment provisions different from those set out in Schedule 2 to this Agreement for such Withdrawal, provided that: (i) the average maturity of such Withdrawal does not exceed 18 (eighteen) years from the Withdrawal Date and the final maturity of such Withdrawal does not exceed 30 (thirty) years from the Withdrawal 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. Without limitation upon the provisions of Section 5.08 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 5.08 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 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 that has arisen that has or would have the effect of materially: (i) impairing the Borrower's ability to maintain an appropriate macroeconomic policy framework; or (ii) reversing the objectives of the Program, or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

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 sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that in the opinion of the Bank, the Borrower has maintained an appropriate macroeconomic policy framework consistent with the objectives of the Program.
- 5.02. The legal opinion referred to in Section 9.02 of the General Conditions shall be issued by the Borrower's Attorney General (*Procurador General de la República*).

- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on October 29, 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 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

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Borrower under the Program include the following:

A. Rendering Public Finances More Efficient and Transparent

1. The Borrower, through its Tax Authority, has initiated a program of legal, administrative and technical actions aimed at further strengthening the Borrower's capabilities for tax administration by carrying out a series of strategic actions, including, *inter alia*:
 - (a) the streamlining of procedural and legal principles applicable to the recovery and collection of debts (including tax-related debts) with the intervention of specialized justice sector institutions and the introduction of oral procedures, through the enactment of Law N° 8624;
 - (b) the updating of procedures for the filing and processing of tax returns by Large Tax Payers and the issuance of guidelines for the periodic updating of a related tax- information base, as evidenced by Resolution N° DGT N° 003-2008 issued by the Tax Authority on February 21, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 61 on March 28, 2008;
 - (c) the approval of guidelines for the electronic filing and processing of tax declarations (*Tributación Digital*), as evidenced by Resolution N° DGT-20-2008 dated November 6, 2008 in the Borrower's Official Gazette (*La Gaceta*) N° 223 on November 18, 2008; and
 - (d) the gradual implementation of the Borrower's TICA Project in the Borrower's customs posts, resulting, *inter alia*, in the following improvements: (i) the unification of customs-related databases; (ii) the development of a single electronic format to process export and import declarations; (iii) the use of internet-based custom declarations; and (iv) the simplification of documentation utilized to process standard transactions, as evidenced by the official letter (*Estado de Situación del Sistema TICA*) N° DGA-TICA-09-2009 issued by the manager of the TICA Project on February 16, 2009.
2. The Borrower has taken significant steps to gradually implement a result-based budget management system aimed at improving the efficiency and transparency of public spending, including, *inter alia*:

- (a) the establishment of technical and methodological guidelines for the alignment of budget allocations with the Borrower's development priorities as set forth in the DNP, as evidenced by Executive Decree N° 34558-H-PLAN (*Lineamientos Técnicos y Metodológicos para la Programación Estratégica Sectorial e Institucional*) issued by MIDEPLAN and the Ministry of Finance dated May 13, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 115 on June 16, 2008; and
- (b) the establishment of technical and financial guidelines for the preparation of result-based budget proposals for 2009 by all government agencies, as evidenced by Circular N° DGPN-0185-2998 (*Directrices Técnicas y Metodológicas para la Formulación del Presupuesto 2009*) issued by the Budget Directorate dated April 21, 2008 and disseminated through the website:
www.hacienda.go.cr/Msib21/Español/Dirección+General+de+Presupuesto+Nacional/.

B. Improving Competitiveness by Removing the Secondary Education Bottleneck

The Borrower has initiated a program of actions aimed at enhancing the quality of education by reducing the rates of students that drop out from the Borrower's (public) secondary education institutions and expanding the technical capabilities of the teaching profession, including, *inter alia*:

1. The expansion of the (gross) number of eligible secondary education students receiving benefits under *Avancemos* Program from 98,050 by December 31, 2007 to 156,909 by December 31, 2008, as evidenced by the progress reports (*Oficios*) issued by the managers of the *Avancemos* Program N° DE-005-2009 (*Fondo Nacional de Becas*) on January 27, 2009 and N° PE-20-01-09 (*Instituto Mixto de Ayuda Social*) on January 9, 2009.
2. The amendment of policies governing promotion and repetition of secondary students, as evidenced by Decree N° 33546-MEP dated January 24, 2007 and published in the Borrower's Official Gazette (*La Gaceta*) N° 2 on January 31, 2007 and Decree N° 34449-MEP dated March 13, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 74 on April 17, 2008.
3. The establishment of a new teacher training institute, through the enactment of Law N° 8697.
4. The approval of guidelines to facilitate the participation of Costa Rican students in international standardized testing programs (PISA), as evidenced by Resolution N° S.E. 10-2008 (*Consejo Superior de Educación*) dated January 18, 2008.

C. Improving Competitiveness by Facilitating Market-entry

The Borrower has continued to carry out significant efforts to expand and deepen its competitiveness, attract foreign direct investments in key economic sectors and further benefit from international trade, by undertaking a comprehensive program of legal reforms, including *inter alia*:

1. The telecommunications sector has been enhanced by a series of reforms aimed at modernizing its operation, improving delivery of services, and establishing an effective institutional framework and regulatory regime, through the enactment of Law N° 8642 (including Law N° 8642 Regulations) and Law N° 8660.
2. The insurance sector has been enhanced by a series of reforms aimed at modernizing its operation, improving delivery of services and creating an effective oversight institutional framework, through the enactment of Law N° 8653 (including Law N° 8653 Regulations).
3. The Borrower's intellectual property regime has undergone a series of reforms aimed at meeting the Borrower's obligations under relevant treaties and conventions and promoting technological innovation, through the enactment of Law N° 8631, Law N° 8632, Law N° 8633, Law N° 8635, Law N° 8636, Law N° 8656 and Law N° 8686.

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 Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in support of the Program in various drawdowns of a single tranche. The category of items that may be financed out of the proceeds of the Loan ("Category"), and the allocation of the amounts of the Loan to this end are set out in the table below:

<u>Allocations</u>	Amount of the Tranche Allocated (expressed in Dollars)
Single Tranche	498,750,000
Front-end Fee	1,250,000
TOTAL AMOUNT	500,000,000

C. Withdrawal of Loan Proceeds. 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 macroeconomic policy framework or of its 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 said Section 3.01, with: (1) the progress achieved by the Borrower in carrying out the Program; and (2) the appropriateness of the Borrower's macroeconomic policy framework.

D. 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 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 (2) 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*, pursuant to the provisions of Articles 66 and 67 of the Borrower's Financial Management and Public Budget (Law N° 8131) and (b) for said compatibility to be maintained, the Borrower must apply said regime in a manner acceptable to the Bank.

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

1. have the account designated by the Borrower pursuant to Part D. 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 (6) 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.
- F. 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.
- G. Closing Date.** The Closing Date is June 30, 2012. The Bank may, by notice to the Borrower, extend said Closing Date up to (3) three more years, provided that the overall Program continues to be implemented in a manner satisfactory to the Bank and macroeconomic policies are adequate.

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 sixtieth (60th) Interest Payment Date following the Maturity Fixing Date for the Disbursed Amount. Each installment shall be equal to 2% 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. “ARESEP” means *Autoridad Reguladora de los Servicios Públicos*, the Borrower’s entity regulating the provision of public services established and operating pursuant to the provisions of Law N° 7593 enacted by the Borrower’s Congress on August 9, 1996 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 169 on September 5, 1996, as amended to the date of this Agreement, and any successor or successors thereto.
2. “*Avancemos Program*” means the Borrower’s program aimed at providing conditional cash transfers for adolescents established and operating under the purview of the Borrower’s Vice-Ministry of Social Development (as hereinafter defined) pursuant to the provisions of Executive Decree N° 33154-MP-MIDEPLAN-MEP-MTSS-MIVAH dated May 8, 2006 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 96 on May 19, 2006, as amended to the date of this Agreement.
3. “Budget Directorate” means *Dirección General del Presupuesto Nacional*, the Borrower’s budget directorate operating within the purview of the Ministry of Finance (as hereinafter defined), and any successor or successors thereto.
4. “Central Bank” means *Banco Central de Costa Rica*, the Borrower’s central banking authority.
5. “Congress” means *Asamblea Legislativa de la República de Costa Rica*, the Borrower’s legislative branch of government.
6. “CONASSIF” means *Consejo Nacional de Supervisión del Sistema Financiero*, the Borrower’s council responsible for the provision of policy direction and oversight of the superintendencies regulating the financial sector institutions established and operating pursuant to the provisions of the Borrower’s Law N° 7732 (*Ley Reguladora del Mercado de Valores*) dated December 17, 1997 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 18 on January 27, 1998, as amended to the date of this Agreement.
7. “DNP” means *Plan Nacional de Desarrollo*, the Borrower’s national development plan for the period 2006-2010 set forth in Executive Decree N° 33608 dated January 1, 2007 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 47 on March 7, 2007.
8. “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, N° 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)
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.
9. “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.
 10. “Large Tax Payer” means *Gran Contribuyente* an individual or corporate taxpayer meeting the criteria defined in Article 1 of the Resolution DGT N°-003-2008 issued by the Tax Authority (as hereinafter defined) dated February 21, 2008 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 61 on March 28, 2008.
 11. “Law N° 8624” means *Ley de Cobro Judicial*, the Borrower’s law establishing procedures for the judicial collection of fiscal debts (including tax-related debts) enacted by the Borrower’s Congress on October 25, 2007 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 223 on November 20, 2007, as amended to the date of this Agreement.
 12. “Law N° 8631” means *Ley de Protección de las Obtenciones Vegetales*, the Borrower’s law establishing the intellectual property legal regime governing plant varieties enacted by the Borrower’s Congress on February 28, 2008 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 56 on March 19, 2008, as amended to the date of this Agreement.
 13. “Law N° 8632” means *Modificación de Varios Artículos de la Ley de Marcas y otros Signos Distintivos*, the Borrower’s law amending existing legislation governing trademarks, patents, biodiversity and related property rights enacted by the Borrower’s Congress on March 25, 2008 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 80 on April 25, 2008, as amended to the date of this Agreement.
 14. “Law N° 8633” means *Ley de Aprobación de la Adhesión de Costa Rica al Tratado de Budapest sobre el Reconocimiento Internacional del Depósito de Microorganismos a los Fines del Procedimiento en Materia de Patentes*, the Borrower’s law ratifying the Budapest Treaty (dated April 28, 1977 as amended on September 26, 1980) enacted by the Borrower’s Congress on March 24, 2008

and published in the Borrower's Official Gazette (*La Gaceta*) N° 84 on May 2, 2008, as amended to the date of this Agreement.

15. "Law N° 8635" means *Ley de Aprobación del Convenio Internacional para la Protección de Obtenciones Vegetales*, the Borrower's law ratifying the international convention for the protection of plant varieties enacted by the Borrower's Congress on April 15, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 83 on April 30, 2008, as amended to the date of this Agreement.
16. "Law N° 8636" means *Ley de Adhesión de Costa Rica al Tratado sobre el Derecho de Marcas y su Reglamento*, the Borrower's law ratifying the Treaty on Trademarks (dated October 27, 1994) enacted by the Borrower's Congress on April 21, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 113 on June 12, 2008, as amended to the date of this Agreement.
17. "Law N° 8642" means *Ley General de Telecomunicaciones*, the Borrower's telecommunications framework law enacted by the Borrower's Congress on May 14, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 125 on June 30, 2008, as amended to the date of this Agreement.
18. "Law N° 8642 Regulations" means the regulatory framework enabling the implementation of Law N° 8642 including the following: (a) Executive Decree N° 34765 (*Reglamento a la Ley General de Telecomunicaciones*) published in the Borrower's Official Gazette (*La Gaceta*) N° 186 on September 26, 2008; (b) *Reglamento del Régimen de Competencia en Telecomunicaciones* issued by ARESEP on October 6, 2008 and published in the Borrower's Official Gazette (*Alcance N° 40 a La Gaceta N° 20*) on October 17, 2008; (c) *Reglamento de Acceso Universal, Servicio universal y Solidaridad* issued by ARESEP on October 6, 2008 and published in the Borrower's Official Gazette (*Alcance N° 40 a La Gaceta N° 20*) on October 17, 2008; and (d) *Reglamento de Acceso e Interconexión* issued by ARESEP on October 6, 2008 and published in the Borrower's Official Gazette (*Alcance N° 40 a La Gaceta N° 20*) on October 17, 2008.
19. "Law N° 8653" means *Ley Reguladora del Mercado de Seguros*, the Borrower's law regulating the insurance sector enacted by the Borrower's Congress on July 1, 2008 and published in the Borrower's Official Gazette (*Alcance N° 30 a La Gaceta N° 152*) on August 7, 2008, as amended to the date of this Agreement.
20. "Law N° 8653 Regulations" means the regulatory framework enabling the implementation of Law N° 8653 including the following: (a) *Reglamento sobre Autorizaciones, Registros, y Requisitos de Funcionamiento de Entidades Supervisadas por la Super Intendencia de Seguros* issued by CONASSIF (*Acta*) N° 744-2008 dated September 18, 2008 and published in the Borrower's Official

Gazette (*La Gaceta*) N° 184 on September 24, 2008; and (b) *Reglamento sobre la Solvencia de Entidades de Seguros y Reaseguros* issued by CONASSIF (*Acta*) N° 744-2008 dated September 18, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 184 on September 24, 2008.

21. "Law N° 8656" means *Reforma y Adición de Varios Artículos de la Ley de Procedimientos de Observancia de los Derechos de Propiedad Intelectual*, the Borrower's law reforming the intellectual property legal regime enacted by the Borrower's Congress on July 10, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 154 on August 11, 2008, as amended to the date of this Agreement.
22. "Law N° 8660" means *Ley de Fortalecimiento y Modernización de las Entidades Públicas del Sector Telecomunicaciones*, the Borrower's law providing for the modernization and strengthening of the Borrower's public entities operating within the telecommunications sector and the creation of a new regulatory authority for the sector enacted by the Borrower's Congress on July 29, 2008 and published in the Borrower's Official Gazette (*Alcance N° 30 a La Gaceta N° 156*) on August 13, 2008, as amended to the date of this Agreement.
23. "Law N° 8686" means *Reforma y Adición de Varias Normas que Regulan Materias Relacionadas con Propiedad Intelectual*, the Borrower's law amending various legal provisions governing intellectual property rights, enacted by the Borrower's Congress on November 11, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 229 on November 26, 2008, as amended to the date of this Agreement.
24. "Law N° 8697" means *Ley de Creación del Instituto de Desarrollo Profesional Uladislao Gamez Solano*, the Borrower's law establishing a teacher training institute under the purview of the Ministry of Education (as hereinafter defined) enacted by the Borrower's Congress on December 10, 2008 and published in the Borrower's Official Gazette (*La Gaceta*) N° 18 on November 26, 2008, as amended to the date of this Agreement.
25. "MIDEPLAN" means *Ministerio de Planificación Nacional y Política Económica*, the Borrower's Ministry of National Planning and Economic Policy, and any successor or successors thereto.
26. "Ministry of Finance" means *Ministerio de Hacienda*, the Borrower's Ministry of Finance, and any successor or successors thereto.
27. "PISA" means Program for International Student Assessments, an international standardized testing system for secondary education students.

28. “Program” means the program of actions, objectives and policies designed to achieve fiscal management and competitiveness reforms in the Borrower’s economy, so as to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated March 16, 2009, from the Borrower to the Bank declaring the Borrower’s continuous commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
29. “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.
30. “Tax Authority” means *Dirección General de Tributación*, the Borrower’s tax administration directorate operating under the purview of the Ministry of Finance, and any successor or successors thereto.
31. “TICA Project” means *Sistema de Información para el Control Aduanero, Tic@* the information technology project aimed at the modernization of the Borrower’s customs administrative and institutional framework established and operating pursuant to the provisions of the Borrower’s Decree N° 32456-H dated June 29, 2005 and published in the Borrower’s Official Gazette (*La Gaceta*) N° 138 on July 18, 2005, as amended to the date of this Agreement.
32. “Vice-Ministry of Social Development” means *Vice-Ministerio de Desarrollo Social*, the Borrower’s Vice-Ministry of Social Development, responsible for the oversight of the *Avancemos* Program, or any successor or successors thereto.

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.