

CONFORMED COPY

LOAN NUMBER 3005 CR

(Second Structural Adjustment Loan)

between

REPUBLIC OF COSTA RICA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated December 16, 1988

LOAN NUMBER 3005 CR

LOAN AGREEMENT

AGREEMENT, dated December 16, 1988, between REPUBLIC OF COSTA RICA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received a letter dated February 26, 1988 from the Borrower describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in the financing of urgently needed imports required during such execution; and

WHEREAS (B) on the basis, inter alia, of the foregoing, the Bank has decided in support of the Program to provide such assistance to the Borrower by making the Loan in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

## General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 11, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Loan pursuant to the provisions of Schedule 1 to the Loan Agreement.";

(b) Section 9.07 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution of the program referred to in the Preamble to the Loan Agreement, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."; and

(c) The last sentence of Section 3.02 is deleted.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "SITC" means 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);

(b) "Tranche" means a portion of the Loan to be made available by the Bank to the Borrower on the Effective Date for the First Tranche (as such term is hereinafter defined) and upon the adoption of the actions described in Schedule 4 to this Agreement for the Second and Third tranches;

(c) "First Tranche" means a Tranche, as so defined, not exceeding the equivalent of \$40,000,000 to be released by the Bank on or after the Effective Date;

(d) "Second Tranche" means a Tranche, as so defined, not exceeding the equivalent of \$35,000,000 to be released by the Bank upon compliance by the Borrower of the conditions set forth in paragraph (a) of Schedule 4 to this Agreement;

(e) "Third Tranche" means a Tranche, as so defined, not exceeding the equivalent of \$25,000,000 to be released by the Bank upon compliance by the Borrower of the conditions set forth in paragraph (b) of Schedule 4 to this Agreement;

(f) "Colon" and "Colones" mean the currency unit of the Borrower;

(g) "Subsidized Credit" means credit granted at interest rates lower than the six-month average deposit interest rate paid by all Public Commercial Banks for a comparable period, published by the Central Bank of Costa Rica;

(h) "Public Commercial Bank" means Banco Nacional de Costa Rica, Banco Anglo-Costarricense, Banco de Costa Rica and Banco de Credito Agricola de Cartago, or any successor thereto;

(i) "Banco Central" means Banco Central de Costa Rica, the Borrower's Central Bank; and

(j) "Legislacion" means the legislation, satisfactory to the Bank, to be approved by the Borrower to revise its Tariff Law.

## ARTICLE II

## The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to one hundred million dollars (\$100,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be January 31, 1991 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

## ARTICLE III

### Particular Covenants

Section 3.01. (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 and the actions specified in Schedule 4 to this Agreement.

(b) Not later than 15 days 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.

(c) The first such exchange of views shall take place not later than July 31, 1989, or such other date as the Borrower and the Bank may otherwise agree.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained separate records and accounts adequate to reflect in accordance with consistently maintained

sound accounting practices the expenditures financed out of the proceeds of the Loan.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than four months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audits referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE IV

##### Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Legislacion has been approved by the Borrower's Legislative Assembly and published in the Diario Oficial.

Section 5.02. The date March 16, 1989 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VI

##### Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as

representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
P.O. Box 5016-1000  
San Jose  
Costa Rica

Telex:

2277 MIN HAC

FAX:

(506) 338 267

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF COSTA RICA

By /s/ Danilo Jimenez Veiga

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Husain

Regional Vice President  
Latin America and the Caribbean

#### SCHEDULE 1

##### Withdrawal of the Proceeds of the Loan

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Loan may be withdrawn from the Loan Account for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods

required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, elements (cartridges), non-irradiated nuclear reactors
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)

(b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;

(c) payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of \$20,000,000 may be made on account of payments made for such expenditures before that date but after August 13, 1988;

(d) expenditures for goods procured under contracts costing less than \$5,000 equivalent;

(e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Bank shall have financed or agreed to finance;

(f) expenditures for goods intended for a military or para-military purpose or for luxury consumption; and

(g) expenditures in excess of an aggregate amount equivalent to \$20,000,000 for petroleum products and foodstuffs.

3. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the proceeds of the Loan after the aggregate of the proceeds of the Loan withdrawn from the Loan Account and the total amount of such commitments shall have reached the equivalent of: (a) \$40,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence

satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program, and (ii) that the actions related to the release of the Second Tranche described in paragraph (a) of Schedule 4 to this Agreement have been taken; and (b) \$75,000,000, unless the Bank shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Bank: (i) with the progress achieved by the Borrower in the carrying out of the Program, and (ii) that the actions related to the release of the Third Tranche described in paragraph (b) of Schedule 4 to this Agreement have been taken.

4. If, after any of the exchange of views described in paragraph 3 above, the Bank shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Bank, then the Bank may, by notice to the Borrower, cancel the unwithdrawn amount of the Loan or any part thereof.

#### SCHEDULE 2

##### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 15 and August 15 beginning February 15, 1994 through February 15, 2006	4,165,000
On August 15, 2006	4,205,000

---

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

##### Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
outstanding	The interest rate (expressed as a percentage per annum) applicable to the balance on the Loan on the day of prepayment

multiplied

by:

Not more than three years before maturity	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 years before maturity	1.00

### SCHEDULE 3

#### Procurement

1. Contracts for the procurement of goods (other than petroleum and petroleum products) estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

#### "2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
- (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
- (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for goods (other than petroleum and petroleum products) estimated to cost the equivalent of less than \$5,000,000 each shall be awarded on the basis of the normal procurement procedures of the purchaser of such goods.

3. With respect to each contract referred to in paragraph 1 of this Schedule, the

Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

4. With respect to each contract referred to in paragraph 2 of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract.

5. The provisions of the preceding paragraphs 3 and 4 shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure.

#### SCHEDULE 4

##### Actions Referred to in Paragraph 3 (a) (ii) and (b) (ii) of Schedule 1 to this Agreement

###### (a) With relation to the release of the Second Tranche:

1. The Borrower shall have reduced the ceiling of each of its import tariffs from the respective level prevailing as of June 30, 1988 (the Ceiling), so as to achieve certain levels of reduction of the Ceiling for each six-month period or fraction thereof between such date and the date of the corresponding exchange of views taking place pursuant to Section 3.01 (a) of this Agreement, said levels to be measured as a fraction of the difference (the Difference) between the Ceiling and 40%, as follows: one-sixth (1/6) of the Difference in respect of (i) all imported items with the exception of (ii) textiles, apparel and footwear, where the fraction shall be of one-tenth (1/10) of the Difference and (iii) strategic goods and non-competing imports (as specified in Annex II to the Program) which shall not be necessarily subject to reduction; provided, however, that the aggregate reductions to be achieved pursuant to the preceding provisions shall be of not less than three-sixths (3/6) of the Difference, in respect of items under (i) above and of not less than three-tenths (3/10) of the Difference, in respect of items under (ii) above.

2. Banco Central shall have taken all necessary measures to reduce, by June 30, 1989, the prior deposit in colones required from importers purchasing foreign exchange, from 50% to not more than 30% of the amount of foreign exchange purchased.

3. The Borrower's new export incentive system, established by the Export Incentive Law shall be in operation, in a manner satisfactory to the Bank, by June 30, 1989.

4. The Borrower shall have taken all necessary measures to eliminate, during 1988, the Consejo Nacional de Produccion's direct price subsidies to consumers of beans, corn and rice.

5. The Borrower shall have taken measures, satisfactory to the Bank, to reduce the difference between domestic official producer prices for corn and the average prices of the past 5 years of their international equivalent (determined in accordance with a methodology satisfactory to the Bank) to a maximum of 50%.

6. The Borrower shall have taken measures, satisfactory to the Bank, to reduce the difference between domestic official producer prices for beans and the average prices of the past 5 years of their international equivalent (determined in accordance with a methodology satisfactory to the Bank) to a maximum of 45%.

7. The Borrower shall have taken measures, satisfactory to the Bank, to reduce the difference between domestic official producer prices for rice and the average prices of the past 5 years of their international equivalent (determined in accordance with a methodology satisfactory to the Bank) to a maximum of 40%.

8. The Borrower shall have taken all necessary measures to permit private traders to import beans, corn and rice in case of insufficient domestic supplies, including the establishment of a market system for the granting of import licenses for said

products.

9. The Public Commercial Banks' over 180-day overdue portfolio shall have been reduced to 5% of the total outstanding loans made by such Banks as of December 31, 1988, and to 4% as of June 30, 1989.

10. The Subsidized Credit granted by Public Commercial Banks from their internally generated resources shall have been kept at the December 31, 1986 level of 5.3 billion Colones or shall have increased by no more than five percentage points (5%) in real terms, and the Borrower shall have furnished evidence, satisfactory to the Bank, that such increase is of a temporary nature.

11. The Borrower shall have issued regulations, satisfactory to the Bank, aimed at:

- (i) allowing banks to charge penalty interest rates for debts not paid at their maturities;
- (ii) prohibiting banks to register as income interest accrued on loans that have been past due for more than 180 days;
- (iii) instructing banks to publish their annual financial statements (balance sheets and income statements) in newspapers with nation-wide circulation; and
- (iv) requiring banks to have their financial statements audited by external auditors.

12. The Borrower shall have reached an annual public sector savings level of not less than 5.7% of the gross domestic product in fiscal year 1988, and established a budgetary target of at least 6% of the gross domestic product for fiscal year 1989.

13. The Borrower shall have been executing, in a manner satisfactory to the Bank, its projected 1988-1990 investment program furnished to the Bank as an annex to the Program.

14. The Borrower shall not have proposed, during fiscal year 1988, new legislation establishing earmarked tax revenues.

(b) With relation to the release of the Third Tranche:

1. The Borrower's new export incentive system established by the Export Incentive Law shall have been functioning in a manner satisfactory to the Bank.

2. The Borrower shall have maintained all measures taken pursuant to paragraph (a) 4. above.

3. The Borrower shall have continued to grant licenses to permit private traders to import beans, corn and rice.

4. The Borrower shall have furnished evidence, satisfactory to the Bank, that the Subsidized Credit has been kept at the level referred to in paragraph (a) 10. above.

5. The Borrower shall have furnished evidence, satisfactory to the Bank, that the regulations referred to in paragraph (a) 11. above have continued to be in effect.

6. The Borrower shall have been executing, in a manner satisfactory to the Bank, the investment program referred to in paragraph (a) 13. above.

7. The Borrower shall have put into effect further reductions of the Ceiling pursuant to paragraph (a) 1. above, provided that the aggregate reduction to be achieved shall be of not less than four-sixths (4/6) of the Difference, in respect of items under paragraph (a) 1.(i) above, and of not less than four-tenths (4/10) of the Difference, in respect of items under paragraph (a) 1.(ii) above.

8. Banco Central shall have taken all necessary measures to reduce, by December 31, 1989, the prior deposit referred to in paragraph (a) 2. above to not more than 10% of the amount of foreign exchange purchased.

9. The Public Commercial Banks' over 180-day overdue portfolio shall have been reduced to 3% of the total outstanding loans made by such Banks as of December 31, 1989.

10. The Borrower shall have taken measures, satisfactory to the Bank, to establish for fiscal year 1990 the producer support prices for corn, beans and rice at levels not higher than 1.4 times the average prices of the past five years of their international equivalent (determined in accordance with a methodology satisfactory to the Bank).

11. The Borrower shall have reached an annual public sector savings level of not less than 6% of the gross domestic product in fiscal year 1989, and established a budgetary target of at least 6% of the gross domestic product for fiscal year 1990.

12. The Borrower shall not have proposed, during fiscal year 1989, new legislation establishing earmarked tax revenues.

