

CONFORMED COPY

LOAN NUMBER 7068-CR

Loan Agreement

(Health Sector Strengthening and Modernization Project)

between

REPUBLIC OF COSTA RICA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated August 23, 2001

LOAN NUMBER 7068-CR

LOAN AGREEMENT

AGREEMENT, dated August 23, 2001, between REPUBLIC OF COSTA RICA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project) has requested the Bank to assist in the financing of the Project;

WHEREAS (B) the Project will be carried out by Caja Costarricense de Seguro Social (CCSS) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to CCSS, as set forth in this Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and CCSS;

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 for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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) "Ambulatory Care Subproject" means any of the investments referred to in Part A.3 (b) of the Project;

(b) "Annual Action Plan" means any of the plans referred to in Section 2.07 of the Project Agreement;

(c) "Deconcentration Subproject" means any of the investments referred to in Part A.3 (a) of the Project;

(d) "Eligible Categories" means Categories (1) through (4) set forth in the Table in Part A.1 of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for goods, works, and services referred to in Section 2.02 of this Agreement;

(f) "Implementation Letter" means the letter of even date herewith from CCSS to the Bank setting forth the Project monitoring indicators referred to in Section 2.09 of the Project Agreement;

(g) "Law No. 17" means the Borrower's Ley Número 17: Ley Constitutiva de la Caja Costarricense de Seguro Social, dated October 22, 1943, which established the legal framework for the operations of CCSS;

(h) "Law No. 7852" means the Borrower's Ley Número 7852: Ley de Desconcentración de los Hospitales y Clínicas de la Caja Costarricense de Seguro Social, dated November 30, 1998, which established the legal framework for CCSS' deconcentration reform;

(i) "Law No. 7983" means the Borrower's Ley Número 7983: Ley de Protección al Trabajador, dated January 24, 2000, which established the new legal system for collection of social security contributions from employers and employees;

(j) "MH" means Ministerio de Salud, the Borrower's Ministry of Health;

(k) "Operational Manual" means the manual referred to in Section 2.06 (a) of the Project Agreement;

(l) "PCU" means the unit referred to in Section 2.08 (a) of the Project Agreement;

(m) "Project Agreement" means the agreement between the Bank and CCSS of even date herewith, as the same may be amended from time to time by agreement between the Bank and CCSS, and such term includes all schedules and agreements supplemental to the Project Agreement;

(n) "Project Management Report" means each report prepared in accordance with Section 4.02 (a) of the Project Agreement;

(o) "Second-Phase Health Sector Reforms" means a set of actions and policies designed to increase the access of the Costa Rican population to health care services and improve the efficiency, effectiveness and quality of said health care services delivered by CCSS;

(p) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement;

(q) "Subproject" means either an Ambulatory Care Subproject (as defined herein) and/or a Deconcentration Subproject (as defined herein); and

(r) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and CCSS pursuant to Section 3.01 (b) of this Agreement.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to CCSS.

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to seventeen million Dollars (\$17,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2006 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 front-end fee in the amount of one hundred seventy thousand Dollars (\$170,000). The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on March 15 and September 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 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 said 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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower and the Bank hereby agree that unless otherwise notified by the Borrower in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to the aggregate principal amount of the Loan withdrawn during each Interest Period shall be changed from the initial Variable Rate to a Fixed Rate for

the full maturity of such amount in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(d) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the Table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and to this end, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause CCSS to perform in accordance with the provisions of the Project Agreement all the obligations of CCSS therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CCSS to perform such obligations and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall onlend the proceeds of the Loan to CCSS under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and CCSS, under terms and conditions acceptable to the Bank, which may include, inter alia, at the Borrower's option and without limitation to the Borrower's obligations under this Agreement, the delegation to CCSS to:

- (i) operate the Special Account in a manner acceptable to the Bank;
- (ii) maintain the records and accounts referred to in Section 4.01 (a) of this Agreement; and
- (iii) carry out the actions referred to in Section 4.01 (b) of this Agreement,

as an agent of the Borrower for the sole purpose of facilitating the Borrower's compliance with the Borrower's obligations under this Agreement.

(c) The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not take or concur in any action which would have the effect of assigning, amending, abrogating, waiving or failing to enforce the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of the Schedule to the Project Agreement.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively), shall be carried out by CCSS pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are

retained 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; including as part of the information to be provided in each such report, a management letter concerning the Borrower's internal controls; and

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

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account 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 six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or 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; 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) CCSS shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that CCSS will be able to perform its obligations under the Project Agreement;

(c) Law No. 17 or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank affect, materially and adversely the ability of CCSS to perform any of its obligations under the Project Agreement;

(d) Law No. 7852 or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the ability of CCSS to perform any of its obligations under the Project Agreement; and

(e) Law No. 7983 or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the ability of CCSS to perform any of its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

(b) Any of the events specified in paragraphs (c) , (d) or (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Subsidiary Agreement has been executed on behalf of the Borrower and CCSS;

(b) CCSS shall have established a financial management system to the satisfaction of the Bank;

(c) CCSS shall have adopted the Operational Manual in a manner satisfactory to the Bank;

(d) the independent auditors referred to in Section 4.01 (b) (i) of the Project Agreement and Section 4.01 (b) (i) of this Agreement have been employed by CCSS as provided in said Section of the Project Agreement and by the Borrower (or CCSS on the Borrower's behalf) as provided in said Section of this Agreement; and

(e) CCSS has adopted the Annual Action Plan for the year 2002, satisfactory to the Bank.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by CCSS, and is legally binding upon CCSS in accordance with its terms; and

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and CCSS and is legally binding upon the Borrower and CCSS in accordance with its terms.

Section 6.03. The date November 21, 2001 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Hacienda
Avenida 2, Calles 1 y 3
San José, Costa Rica

Facsimile:

(506) 255-4874

For the Bank:

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)

(202) 477-6391

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/ Laura Dachner

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Donna Dowsett-Coirolo

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods (except as covered by Category (4) below)	1,500,000	60%
(2) Consultants' services and audits (except as covered by Category (4) below)	6,000,000	75%
(3) Training (except as covered by Category (4) below)	1,300,000	75%
(4) Subprojects		
(a) Goods, works, consultants' services and/or training for Deconcentration Subprojects	4,000,000	75%
(b) Goods, works, consultants' services and/or training for Ambulatory Care Subprojects	2,500,000	70%
(5) Fee	170,000	Amount due pursuant to

Section 2.04
of this Agreement

(6)	Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due pursuant to Section 2.09 (d) of this Agreement
(7)	Unallocated	1,530,000	
	TOTAL	17,000,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "training" means reasonable expenditures (other than those for consultants' services) incurred by the Borrower to finance transportation costs, per-diem of trainees, rental of training facilities, training materials and equipment required for training activities under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$1,700,000 equivalent, may be made in respect of Categories (1) and (2) set forth in the Table in paragraph 1 of Part A of this Schedule on account of payments made for expenditures before that date but after May 21, 2001.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures: (a) under contracts for goods costing less than \$150,000 equivalent per contract and works costing less than \$350,000 equivalent per contract; (b) under contracts for the employment of consultants' services of firms costing less than \$100,000 equivalent per contract; (c) under contracts for the employment of individual consultant services costing less than \$50,000 equivalent per contract; and (d) for training as set forth in Category (3) of the Table in paragraph 1 of Part A of this Schedule, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in Dollars a separate special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of the Project Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of the Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not

be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of the Project Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports or statements of expenditure.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$750,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed the amount of \$4,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan allocated to the Eligible Categories minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Loan allocated to said Categories, shall equal twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to said Eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed \$3,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to support the implementation of Costa Rica's Second-Phase Health Sector Reforms.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Policy Design and Implementation

1. Carrying out of a program to strengthen the institutional capacity of CCSS and MH to improve the provision of health services through, inter alia: (a) the carrying out of studies to improve the organizational, legal and regulatory framework of said institutions; (b) the provision of technical assistance and/or training to said institutions' staff required therefore; (c) carrying out of seminars and workshops and study tours in Costa Rica and abroad with respect to health sector reform; and (d) the acquisition and utilization of goods required therefore.

2. Provision of support for CCSS' deconcentration initiatives as provided by Law No. 7852 through, inter alia: (a) the design and implementation of a deconcentration program; (b) the design and implementation of a program to improve and promote ambulatory health care services; (c) the strengthening of CCSS' systems used for the planning, procurement and distribution of pharmaceuticals and medical supplies; and (d) the strengthening of CCSS' programs through which CCSS contracts the delivery of health care services with public and other entities.

3. Carrying out of investments for purposes: (a) of improving the managerial capacity of CCSS' health care facilities; and (b) of promoting, expanding and/or improving CCSS' ambulatory health care services.

4. Carrying out of a program to strengthen CCSS' resource allocation and payment mechanisms to health care service providers through, inter alia: (a) the carrying out of studies to: (i) improve the criteria for the allocation of resources and the targeting of public subsidies to CCSS' beneficiaries; and (ii) establish new payment mechanisms for health care service providers; (b) the introduction of new reimbursement mechanisms for CCSS' hospitals; and (c) seminars, study tours and workshops to support implementation of resource allocation mechanisms and to exchange experiences with other health systems.

Part B: Monitoring and Evaluation and Project Management

1. (a) Design and implementation of a program to monitor and evaluate the carrying out of the Project; and (b) strengthening of the operational capacity of the PCU to assist CCSS in the coordination, monitoring and supervision of the Project.

2. Carrying out of information, education and communication campaigns to promote the benefits of the Second-Phase Health Sector Reforms among the Costa Rican population, including health sector workers.

* * *

The Project is expected to be completed by June 30, 2006

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Payment Date	Installment Share (Expressed as a %)
On each March 15 and September 15 beginning September 15, 2008 through March 15, 2016	6,25%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the Table in paragraph 1 of this Schedule for said Principal Payment Date (the

Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

