

CONFORMED COPY

LOAN NUMBER 3527 CH

Loan Agreement

(Health Sector Reform Project)

between

REPUBLIC OF CHILE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 15, 1992

LOAN NUMBER 3527 CH

LOAN AGREEMENT

AGREEMENT, dated December 15, 1992, between REPUBLIC OF CHILE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Bank has received a letter dated September 17, 1992, from the Borrower describing a program of actions, objectives and policies for the Borrower's health sector, and declaring the Borrower's commitment to the execution of such program, including the provision of the necessary funds therefor;

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

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 set forth below (the General Conditions) constitute an integral part of this Agreement:

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

(b) In Section 6.02, subparagraph (k) is relettered as subparagraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "CDT" means a diagnostic and treatment health center;

(b) "CRS" means a health referral center;

(c) "CSF" means the Borrower's Central Supply Facility (Central de Abastecimiento);

(d) "Environmental Health Program Implementation Manual" means the manual, satisfactory to the Bank, to be adopted by the Borrower, through the MOH, containing instructions with respect to the mechanisms for the carrying out of Part C.2 of the Project;

(e) "Executing Agency" means CSF, FONASA, ISAPRES' Superintendency, ISP or an HSA;

(f) "FONASA" means the Borrower's National Health Fund (Fondo Nacional de Salud);

(g) "HSA" means a Health Service Area, a legally autonomous health service of the Borrower created by Chapter II of the Borrower's Decree-law No. 2763 of 1979;

(h) "Implementation Agreement" means any of the agreements to be entered into between the Borrower and an Executing Agency pursuant to Section 3.01 (c) of this Agreement;

(i) "ISAPRES' Superintendency" means the Borrower's Superintendency of Prepaid Health Insurance Plans (Superintendencia de Instituciones de Salud Previsional);

(j) "ISP" means the Borrower's Institute of Public Health (Instituto de Salud Publica);

(k) "Llanchipal" means the HSA serving the provinces of Llanquihue, Chiloé and Palena, within the Borrower's Region X;

(l) "Master Agreement" means any of the agreements to be entered into between the Borrower and an Executing Agency pursuant to Section 3.01 (b) of this Agreement;

(m) "Metropolitan Santiago" means the area comprising the provinces of Santiago, Chacabuco, Cordillera, Talagante, Maipo and Melipilla;

(n) "MOH" means the Borrower's Ministry of Health;

(o) "MOH's Training Secretariat" means the secretariat referred to in Section 7.01 (b) of this Agreement;

(p) "PCU" means the Project coordination unit referred to in Section 3.13 of

this Agreement;

(q) "PCU Operation Manual" means the manual, satisfactory to the Bank, to be adopted by the Borrower to regulate the activities of the PCU;

(r) "Project Implementation Manual" means the manual, satisfactory to the Bank, to be adopted by the Borrower, through the MOH, containing instructions to the MOH and the Executing Agencies with respect to the mechanisms to carry out the Project (other than Part C.2 of the Project);

(s) "Service Provision Agreement" means any of the agreements referred to in Section 3.04 (a) of this Agreement;

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(u) "Training Instructions Manual" means the manual, satisfactory to the Bank, to be adopted by the Borrower, through the MOH, to regulate the training program under Part A.5 of the Project.

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 this Agreement, various currencies that shall have an aggregate value equivalent to the amount of ninety million Dollars (\$90,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) 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 and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in Dollars a special deposit account in the Central Bank of Chile on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1998 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 for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

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

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

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

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 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 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out and cause, through the Master Agreements and Implementation Agreements, the Executing Agencies to carry out the Project, as provided in the Annex to such Schedule 2, with due diligence and efficiency and in conformity with appropriate economic, financial, engineering, administrative and health practices and the provisions of the Project Implementation Manual, the Environmental Health Program Implementation Manual, the PCU Operation Manual and the Training Instructions Manual, as applicable, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower, through the MOH, shall enter into an agreement (the Master Agreement), satisfactory to the Bank, with each Executing Agency for the purposes of: (i) governing the participation of such Executing Agency in the carrying out of the components of the Project under its responsibility; and (ii) the assumption by such Executing Agency of the obligations set forth or referred to in this Agreement to be undertaken by such Executing Agency.

(c) The Borrower, through the MOH, shall enter into an agreement or agreements (the Implementation Agreement), satisfactory to the Bank, with each Executing Agency for the purposes of: (i) transferring to such Executing Agency the amounts required for the carrying out of each component of the Project under such Agency's responsibility; (ii) describing the component of the Project to be financed under the Implementation Agreement; (iii) when applicable, establishing the obligation of such Executing Agency to provide funds for such component of the Project; and (iv) incorporating in the Implementation Agreement

the provisions of the corresponding Master Agreement.

(d) The Borrower, though the MOH, shall exercise its rights and comply with its obligations under each Master Agreement and Implementation Agreement in such 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 assign, amend, abrogate or waive any Master Agreement or Implementation Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree:

(a) procurement of 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 Schedule 4 to this Agreement; and

(b) standard bidding documents, satisfactory to the Bank, shall be utilized for the procurement of goods and works required by the Project and to be financed out of the proceeds of the Loan.

Section 3.03. The Borrower shall, not later than July 1, 1993, put into effect the new organization structure for the MOH, under Part A.1 of the Project.

Section 3.04. (a) The Borrower, through the MOH, shall, not later than May 15, 1993 or such later date as the Bank shall establish by notice to the Borrower, enter into agreements with at least five HSAs (the Service Provision Agreements) for the purposes of establishing targets to be attained by such HSAs with respect to the services to be provided by such HSAs and the annual budgetary allocations for the provision of such services, such agreements to be based on the guidelines agreed between the Borrower and the Bank.

(b) The Borrower, through the MOH, shall, not later than December 31, 1993, exchange views with the Bank on the results of the implementation of the Service Provision Agreements.

Section 3.05. The Borrower, through the MOH's Training Secretariat, shall carry out or cause to be carried out Part A.4 of the Project in accordance with the provisions of the Training Instructions Manual.

Section 3.06. The Borrower, through the MOH, shall: (a) not later than June 15, 1993, prepare, and exchange views with the Bank on, a study to develop a manpower planning methodology to determine the personnel structure to be adopted by HSAs, and an action program for the implementation of such study's recommendations; and (b) not later than January 15, 1994, start to carry out such action program.

Section 3.07. The Borrower, through the MOH, shall: (a) not later than March 1, 1993, start the carrying out of a program, satisfactory to the Bank, to recruit and reassign staff in the MOH and the Executing Agencies; and (b) review with the Bank, not later than June 15 and December 15 of each year during the execution of the Project, starting on June 15, 1993, the progress in the carrying out of such program.

Section 3.08. The Borrower, through the MOH, in coordination with CSF, shall: (a) not later than June 30, 1993, present to the Bank a strategic plan study clarifying CSF's organizational mission and values, assessing the opportunities and threats in CSF's external environment, identifying strategic issues facing CSF, and formulating strategies to manage the identified strategic issues, such study to include an action program, satisfactory to the Bank, detailing the steps to be taken for the conversion of CSF into an autonomous state enterprise; and (b) not later than September 15, 1993, review with the Bank the progress in the implementation of such action program, including the draft legislation required for the conversion of CSF into an autonomous state enterprise.

Section 3.09. The Borrower, through the MOH, shall cause ISP to: (a) furnish to the Bank, for its review: (i) not later than June 30, 1993, a draft of a feasibility study on ISP's potential to enter into a joint venture with a private firm, and (ii) not later than October 15, 1993, a draft program for modernization of ISP's tariff structure, administrative procedures and procurement and distribution procedures; and (b) not later than January 15, 1994, implement the recommendations of the program

referred to in paragraph (a) (ii) above, as reviewed with the Bank, in accordance with a timetable satisfactory to the Bank.

Section 3.10. The Borrower, through the MOH, shall furnish to the Bank, not later than April 30, 1993, reference benchmark data for indicators to monitor and evaluate the Project, including, as appropriate, quality of care and efficiency of health services indicators.

Section 3.11. The Borrower, through the MOH, shall:

(a) not later than August 31 of each year during the execution of the Project, exchange views with the Bank on the availability of staff and the amounts required for the carrying out of the activities under the Project during the next succeeding year;

(b) not later than October 1 of each year during the execution of the Project, furnish to the Bank, for comments, the proposed public sector health budget for the next succeeding year; and

(c) not later than June 15, 1995, review with the Bank (i) the progress in the implementation of the Project; (ii) the adequacy of the health sector financing and budget; and (iii) the Project's estimated benefits.

Section 3.12. The Borrower, through the MOH, shall prepare and present to the Bank:

(a) not later than July 31 and January 31 of each year during the execution of the Project, a semi-annual report, satisfactory to the Bank, on the physical and financial implementation of Parts B and C of the Project during the previous January-June and July-December periods, respectively; and

(b) not later than January 31 of each year, an annual implementation progress report, satisfactory to the Bank, on the implementation of the Project during the previous calendar year and a work plan, satisfactory to the Bank, for the applicable calendar year.

Section 3.13. The Borrower, through the MOH, shall: (a) maintain the PCU with adequate staff, functions and funds, satisfactory to the Bank, for the purposes of the carrying out of Part D of the Project; and (b) cause the PCU to carry out such Part D, in accordance with the PCU Operation Manual.

Section 3.14. 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 the Executing Agencies in respect of the respective components of the Project under their responsibility.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall: (i) maintain and cause the Executing Agencies to maintain records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the respective components of the Project under the responsibility of the Borrower, through MOH, and the Executing Agencies.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including 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; 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 or payment out of the Special 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 audit 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 V

Other Covenants

Section 5.01. The Borrower shall cause each HSA:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and health practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and to maintain its hospitals, machinery, equipment and other property and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and health practices.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) the PCU Operation Manual, the Environmental Health Program Implementation Manual, the Project Implementation Manual or the Training Instructions Manual shall have been amended, suspended, abrogated, repealed or waived so as to materially and adversely affect, in the opinion of the Bank, the ability of the Borrower, through MOH, or any of the Executing Agencies to perform any of their obligations referred to in this Agreement; and

(b) any of the Executing Agencies shall have failed to perform any of their

obligations under their respective Master Agreements or Implementation Agreements.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely that any event specified in paragraph (a) or paragraph (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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 Borrower has adopted, in form and substance satisfactory to the Bank, the PCU Operation Manual, the Environmental Health Program Implementation Manual, the Project Implementation Manual and the Training Instructions Manual; and

(b) a secretariat in MOH to be responsible for the carrying out of Part A.4 of the Project (MOH's Training Secretariat) has been established, in form and substance satisfactory to the Bank.

Section 7.02. The date March 16, 1993 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. 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:

Ministry of Finance
Teatinos 120-Piso 12
Santiago, Chile

Cable address:

Telex:

241 334 MHDA-CL

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:

INTBAFRAD
Washington, D.C.

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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 CHILE

By /s/ Julio Montt

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edilberto Segura

Acting Regional Vice President
Latin America and the Caribbean

Countersigned on behalf
of the Treasurer General
of the Republic of Chile

By /s/ Jose Tomas Letelier
Authorized Representative

Countersigned on behalf
of the Controller General
of the Republic of Chile

By /s/ Jose Tomas Letelier
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods for HSAs under Parts B and C.1 of the Project	32,500,000	70%
(2) Works under Part B of the Project (except for CRS)	43,900,000	50%
(3) Consultants' services under	1,200,000	100%

Part A of the Project			
(4)	Project administration	3,400,000	100%
(5)	Unallocated	9,000,000	
	TOTAL	90,000,000	=====

2. For the purposes of this Schedule, "Project administration" means: (i) the salaries of up to six senior level professionals and up to 30 professional support staff of the PCU; (ii) the cost of training (including travel), leasing the office space for the PCU, maintenance of the PCU equipment, and water, electricity, gas and communications services for the PCU; (iii) office supplies and one vehicle for the PCU; and (iv) audit services.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed the equivalent of \$5,600,000, may be made on account of payments made for expenditures before that date but after February 15, 1992; and (b) payments for expenditures under any component of the Project to be carried out by an Executing Agency, unless: (i) the Master Agreement between the Borrower, through MOH, and such Executing Agency has been entered into; and (ii) the Implementation Agreement in respect of such component of the Project has been entered into between the Borrower, through MOH, and such Executing Agency.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower: (a) to strengthen the decentralization of health services delivery through: (i) reforms in MOH's mission and organizational structure, and enhancement of the system of generating and transferring financing resources in the health sector; (ii) upgrading of the institutional organization and management capacity for procuring and distributing drugs and food supplements by CSF, and for controlling the quality of drugs and food products by ISP; and (iii) improvement of the management and clinical skills of health personnel, and the health sector management and information system; and (b) to introduce a new health care model to develop specialized ambulatory services at the secondary and tertiary levels, improve the deteriorated conditions of selected hospitals, and fill the health services gaps in seven HSAs in Metropolitan Santiago and Antofagasta, and in Llanchipal.

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: Decentralization of Health Services Delivery

1. Revision of MOH's organizational structure to focus on normative and supervisory functions and to implement the delegation of MOH's health services delivery functions to the HSAs.

2. Preparation of the measures to transform the CSF into an autonomous state enterprise and improvement of its administrative, financial and operational capabilities.

3. Strengthening of the ISP's capability to control the quality of drugs and food products, supervise national laboratories and make biological products.

4. A training program to develop human capital needed by the public health subsector in the short- and medium-term, benefitting senior and middle management staff, and clinical staff.

5. Strengthening of the public health information system through improvement of administrative procedures, where applicable, introduction of computer-based information systems, and staff training.

Part B: Facility Investments for the New Health Care Model

1. In the HSA for the north area of Metropolitan Santiago:
 - (a) reconstruction and reequipping of the San Jose hospital;
 - (b) construction of a CDT facility adjacent to such hospital; and
 - (c) construction and equipping of an emergency unit.
2. In the HSA for the central area of Metropolitan Santiago:
 - (a) establishment of a CDT in the San Borja hospital;
 - (b) installation of an emergency service for adults in the San Borja hospital; and
 - (c) construction and equipping of a CRS in the Maipu area.
3. In the HSA for the west area of Metropolitan Santiago:
 - (a) establishment of a CDT in the San Juan de Dios hospital;
 - (b) installation of an emergency service in the San Juan de Dios hospital; and
 - (c) construction and equipping of a CRS in the Pudahuel area.
4. In the HSA for the east area of Metropolitan Santiago:
 - (a) construction and equipping of a 200 bed hospital in the Santiago Oriente area, including an emergency unit and an annexed CRS;
 - (b) refurbishing and reequipping of the Del Salvador hospital; and
 - (c) refurbishing and reequipping of the Calvo Makenna hospital's surgical wards and outpatient clinics.
5. In the HSA for the south area of Metropolitan Santiago:
 - (a) construction and equipping of a CDT in the Barros Luco Trudeau hospital;
 - (b) refurbishing of the Barros Luco Trudeau hospital;
 - (c) construction and equipping of a CRS in El Pino hospital; and
 - (d) reconstruction and equipping of El Pino hospital.
6. In the HSA for the southeast area of Metropolitan Santiago:
 - (a) establishment of a CDT in the Sotero del Rio hospital;
 - (b) replacement of the surgical ward in the Sotero del Rio hospital;
 - (c) remodelling of the wards for private patients in the Sotero del Rio hospital; and
 - (d) construction and equipping of a hospital of approximately 400 beds in the San Ramon area, including an emergency unit and a CRS.
7. In the HSA for Antofagasta: equipping of the ambulatory service and inpatient sections of the Antofagasta and Calama hospitals.

8. In Llanchipal:

(a) construction and equipping of an additional surgical block in the Puerto Montt hospital;

(b) replacement of the heating and laundry systems in the Puerto Montt hospital; and

(c) refurbishing of critical sections of the Castro hospital.

Part C: Special Programs

1. Strengthening of the program for the diagnosis and treatment of cervical cancer through the reequipping of laboratories in HSAs (except the HSA for environmental health) and the establishment of a national reference laboratory.

2. An information and education pilot program on the prevention, management and control of environmental health hazards.

Part D: Project Administration and Coordination

Acquisition and utilization of goods and consultants' services for the administration, coordination, evaluation and monitoring of the execution of Parts A, B and C of the Project, including audit services.

* * *

The Project is expected to be completed by December 31, 1997.

ANNEX TO SCHEDULE 2

The responsibilities for the carrying out of the several components of the Project shall be as follows:

Part of the Project	Responsible Entity(ies)
A.1 and A.2	MOH
A.3	ISP
A.4	MOH and Executing Agencies
A.5	MOH and Executing Agencies (except FONASA and ISAPRES' Superintendency)
B	The respective HSAs indicated therein
C.1	The HSAs (except the HSA for environmental health)
C.2	The HSA for environmental health
D	PCU

SCHEDULE 3

Amortization Schedule

Payment of Principal

Date Payment Due	(expressed in dollars)*
On each June 15 and December 15	
beginning June 15, 1998	
through December 15, 2009	3,750,000

* 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

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to 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 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded 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 1992 (the Guidelines).
2. To the extent practicable, contracts for hospital and information equipment and spare parts shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Chile may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works estimated to cost less than the equivalent of \$5,000,000 per contract, up to an aggregate amount equivalent to \$31,700,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
2. Goods estimated to cost the equivalent of less than \$250,000 and more than the equivalent of \$35,000 per contract, up to an aggregate amount equivalent to \$49,400,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.
3. Goods estimated to cost the equivalent of \$35,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$11,240,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to: (i) each contract procured pursuant to the provisions of Part A hereof; (ii) each contract procured pursuant to the provisions of Part C.1 hereof and estimated to cost the equivalent of \$2,000,000 or more; and (iii) the first contract estimated to cost the equivalent of \$100,000 or more procured by an HSA pursuant to the provisions of Part C.2 hereof each year, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished

pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in the carrying out of the Project, the Borrower shall employ, or cause to be employed, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) 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 paragraph 4 of this Schedule 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.

All such deposits shall be withdrawn by the Bank from the Loan Account under the

respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

