

CONFORMED COPY

LOAN NUMBER 3654 CR

Loan Agreement

(Health Sector Reform Project)

between

REPUBLIC OF COSTA RICA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 6, 1993

LOAN NUMBER 3654 CR

LOAN AGREEMENT

AGREEMENT, dated December 6, 1993, 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, has requested the Bank to assist in the financing of the Project;

(B) Parts A, B, C and E of 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 available to CCSS a portion of the proceeds of the Loan as provided in this Agreement; and

(C) the Bank has received a letter from the Borrower dated September 13, 1993 (Policy Statement) describing the Borrower's objectives and policies in respect of the health sector; 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 Project 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" 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) "Account Bank" means a financial entity, acceptable to the Borrower and the Bank, duly established under the laws of Costa Rica;

(b) "Annual Implementation Plan" means each of the annual implementation plans submitted to the Bank by the Borrower and CCSS pursuant to Section 3.04 (a) of this Agreement and Section 2.05 (a) of the Project Agreement, respectively, and which plan has been approved by the Bank;

(c) "Basic Health Team" means each of the seven hundred teams of health personnel necessary to offer the minimum package of primary health care services under the Redefined Primary Health Care Model in the Health Regions as such teams are defined and described in the document entitled "Propuesta de Readecuaci>n del Modelo de Atenci>n, Informe Final", February 1993 (hereinafter Informe) and which teams will be established by CCSS in accordance with the Programa de Integraci>n and "Basic Health Teams" means all of such teams;

(d) "Charter" means the Borrower's Ley Constitutiva de la Caja Costarricense de Seguro Social, No. 17 of October 22, 1943 as amended from time to time, including any other legal norms related to the operations of CCSS;

(e) "Convenio" means the agreement, satisfactory to the Bank, to be entered into between the Borrower, through MF, and CCSS providing for the exchange of tax, social security and income information between MF and CCSS;

(f) "Fiscal Year" means the Borrower's fiscal year commencing on January 1 and ending on December 31;

(g) "Health Area" means each of the seventy four (74) areas comprising an array of health facilities with various levels of complexity as such areas are defined and described in the Informe and which areas will be established by the Borrower pursuant to Section 6.01 (c) of this Agreement and "Health Areas" means all of such areas;

(h) "Health Center" means each of the health units entitled centros de salud as defined and described in the Borrower's Reglamento General del Sistema Nacional de Salud approved by the Borrower's decree No. 19276-S dated November 9, 1989 (hereinafter Reglamento);

(i) "Health Post" means each of the health units entitled puestos de salud as defined and described in the Reglamento;

(j) "Health Regions" means each of the seven administrative regions (regiones administrativas) of CCSS as provided in the Reglamento and consisting of the regions

of Huetar Norte, Central Norte, Central Sur, Huetar Atlántica, Chorotega, Pacífico Central and Brunca;

(k) "Human Resources Development Fund" means the fund, satisfactory to the Bank, to be established by CCSS for purposes of administering the training activities under Part A.3 of the Project;

(l) "INCIENSA" means the Borrower's Institute of Research and Education in Health and Nutrition, Instituto Costarricense de Investigación y Enseñanza en Salud, within MH, established through the Borrower's Ley 6088 of October 7, 1977 and published in the Borrower's Official Gazette No. 217 dated November 11, 1977;

(m) "Indigent Population" means all the individuals who fall under the category of "asegurado por cuenta del Estado" as provided in the Borrower's Decree No. 15133-S dated January 4, 1984 and published in the Borrower's Official Gazette No. 13 dated January 18, 1984;

(n) "Institutional Development Plan" means the plan referred to in Section 6.01 (b) of the Loan Agreement;

(o) "MF" means the Borrower's Ministry of Finance, Ministerio de Hacienda;

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

(q) "PCU" means the unit established in CCSS as indicated in the letters from CCSS to the Bank dated August 17, 1993 and August 26, 1993 and charged with the coordination and supervision of the Project;

(r) "Programa de Integración" means the program referred to in Section 6.01 (d) of the Loan Agreement;

(s) "Project Agreement" means the agreement between the Bank and Caja Costarricense de Seguro Social (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;

(t) "Redefined Primary Health Care Model" means the model of provision of primary health care services, defined and described in the document entitled "Propuesta de Readecuación del Modelo de Atención, Informe Final", February 1993, and which model includes: (a) the integration of preventive and curative services in the Health Areas with a focus on the family unit and ensuring continuity of medical personnel in the attention of health care; (b) the establishment of epidemiologic surveillance in each Health Area for local planning and measurement of progress in health outcomes; (c) the delegation to the Health Areas of budgetary and management functions; (d) universal coverage; (e) improved mechanisms to ensure compliance with the referral system; and (f) an increased involvement of the community to ensure a more responsive health system;

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

(v) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and CCSS pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Agreement.

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, various currencies that shall have an aggregate value equivalent to the amount of twenty two million dollars (\$22,000,000), 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 Account Bank 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 January 31, 1999 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 January 15 and July 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) shall carry out Part D of the Project, through INCIENSA, with due diligence and efficiency and in conformity with appropriate administrative, health, scientific, environmental and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Part of the Project;

(b) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause CCSS to perform all its obligations set forth in the Project Agreement, 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;

(c) without limitation or restriction to the provisions in the above paragraphs (a) and (b), the Borrower, through MF, shall make available part of the proceeds of the Loan to CCSS under an agreement under terms and conditions which shall have been approved by the Bank including provisions for the cancellation of the outstanding debt of the Borrower with CCSS and for the full and timely compliance with the Borrower's future payment obligations with CCSS related to the health insurance (Seguro de Enfermedad y Maternidad). The Borrower shall authorize the respective annual budgetary allocations to ensure that MF is able to comply with the provisions of the above agreement;

(d) without limitation or restriction to the provisions in the above paragraphs (a) and (b), the Borrower shall annually transfer to CCSS all necessary funds to cover the costs of operating the Health Centers and Health Posts to be transferred from MH to CCSS under the Programa de Integracion. Without limitation or restriction to the above provision, the estimated amounts to be transferred, which include the salaries and fringe benefits of the personnel to be transferred, are the following: \$3,400,000 equivalent in Fiscal Year 1995; \$8,500,000 equivalent in Fiscal Year 1996; \$15,500,000 equivalent in Fiscal Year 1997 and thereafter; and

(e) the Borrower shall duly perform all of its obligations and exercise all of its rights under the Subsidiary Agreement and the Convenio in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. 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 or waiving the Subsidiary Agreement, the Convenio 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 Schedule 4 to this 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) in respect of Parts A, B, C and E of the Project shall be carried out by CCSS pursuant to Section 2.03 of the

Project Agreement.

Section 3.04. The Borrower shall:

(a) not later than August 31 of each year during the execution of the Project, prepare and furnish to the Bank, for its review and approval, a proposed annual implementation plan for the upcoming year covering in detail the implementation and cost schedule of Part D of the Project;

(b) not later than June 30 and December 31 of each year during the execution of the Project, prepare and furnish to the Bank a progress report, of such scope and detail as the Bank may reasonably request, on the progress achieved in the implementation of Part D of the Project; and

(c) participate in the annual reviews referred to in Section 2.06 of the Project Agreement and take all necessary action to implement, or to enable CCSS to implement, any remedial actions to be taken as a result of the referred annual reviews.

Section 3.05. The Borrower shall maintain in INCIENSA an organizational structure, functions and staffing, satisfactory to the Bank, for the implementation of Part D of the Project.

Section 3.06. The Borrower shall transfer to CCSS, in a timely fashion, all necessary funds to cover the full costs of health care for the Indigent Population; such costs to be calculated in accordance with a methodology satisfactory to the Bank.

Section 3.07. The Borrower shall, through INCIENSA: (a) carry out, not later than June 30, 1995, the study under Part D.1 of the Project; (b) promptly after its completion, submit to the Bank a copy of the study for its review; (c) not later than October 1, 1995 submit to the Bank an action plan, satisfactory to the Bank, based on the results and recommendations of the study and the Bank's comments thereon; and (d) implement such action plan in a manner satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part D of the Project.

(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

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) 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) A situation shall have occurred which shall make it improbable that CCSS will be able to perform its obligations under the Project Agreement.

(c) The Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of CCSS to perform any of its obligations under the Project Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CCSS or for the suspension of its operations.

(e) The Programa de Integraci>n shall have not been implemented in accordance with its terms and provisions.

(f) By July 31, 1996, the Bank shall have not received evidence, satisfactory to the Bank, showing that the Borrower has enacted legislation, and regulations related thereto, adopting a comprehensive and adequate regulatory framework on private sector participation in the provision of health care services, all satisfactory to the Bank, and that such legislation and regulations are in full force and effect.

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

(a) any event specified in paragraph (a) or (c) or (e) or (f) of Section 5.01 (a) 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; and

(b) any event specified in paragraph (d) 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 shall have been executed on behalf of the Borrower and CCSS.

(b) CCSS shall have prepared a plan, satisfactory to the Bank, for the implementation of Parts A.1 and A.3 (a) of the Project.

(c) The Borrower shall have established the Health Areas in a manner satisfactory to the Bank.

(d) The Borrower and CCSS shall have: (i) furnished to the Bank a time-bound program, satisfactory to the Bank providing for: (1) the establishment of the Health Basic Teams; and (2) the transfer of all Health Centers and Health Posts from the MH to CCSS together with the transfer of approximately 1,700 MH health professionals and auxiliary personnel to CCSS; and (ii) taken all necessary actions, including the enactment of legislation and the issuance of regulations, to authorize the implementation of the above program.

(e) The Convenio shall have entered into force.

(f) The Borrower and CCSS shall have prepared standard bidding documents, satisfactory to the Bank, to be utilized for the procurement of goods and works under local competitive bidding procedures.

(g) The Special Account has been duly opened.

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;

(b) that the Subsidiary Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon such parties in accordance with its terms;

(c) that the Convenio has been duly authorized or ratified by the parties thereto, and is legally binding upon such parties in accordance with its terms; and

(d) that the actions taken pursuant to Section 6.01 (c), (d) (ii) and (g) are valid and sufficient under the laws of Costa Rica.

Section 6.03. The March 7, 1994 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives 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:

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

Telex:

2277 MIN HAC

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:

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 COSTA RICA

By /s/ Eldas Jimenez Fonseca

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Edilberto Segura

Acting Regional Vice President
Latin America and the Caribbean

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) Civil works	700,000	50%
(2) Equipment and Furniture	4,500,000	70%
(3) Consultants' services	8,600,000	100%
(4) Training and Fellowships	5,300,000	90%

(5) Printing of training materials and manuals	500,000	100%
(6) Incremental operating costs	400,000	100% of expenditures made until June 30, 1995; 75% of expenditures made from July 1, 1995 until June 30, 1996; 50% of expenditures made from July 1, 1996 until June 30, 1997; and 25% of expenditures made after June 30, 1997
(7) Unallocated	2,000,000	
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TOTAL	22,000,000	=====

2. For the purposes of this Schedule the term "incremental operating costs" means expenditures for: (a) the maintenance of medical equipment and computers financed under the Project; (b) travel related to supervision of the Project; and (c) office supplies for the use of the PCU in respect of Project coordination.

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 \$1,000,000, may be made in respect of Categories (1) through (6) on account of payments made for expenditures before that date but after June 1, 1993; (b) payments made for expenditures related to computer hardware under Part A.2 of the Project unless CCSS has submitted to the Bank an action plan, satisfactory to the Bank, for the implementation of the improved management information system; (c) payments made for expenditures related to equipment under Part B.1 of the Project unless the Bank has received evidence, satisfactory to the Bank showing that: (i) all Health Centers and Health Posts in the respective Health Area have been transferred from MH to CCSS together with the respective personnel in accordance with the Programa de Integración; (ii) all Basic Health Teams in the respective Health Area have been established and are fully operational; and (iii) CCSS has full and exclusive control over the management and provision of primary health care services in the respective Health Area; and (d) payments made for expenditures under Part A.3 (a) of the Project, unless CCSS has established the Human Resources Development Fund.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for such expenditures and under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower and CCSS in implementing reforms to: (a) improve the efficiency, effectiveness and quality of health care services delivered by CCSS; and (b) improve the quality control and surveillance system in the health sector.

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

Part A: CCSS Institutional Reform and Development

1. Strengthening the organization of the CCSS through: (a) a redefinition of its institutional objectives and the role and functions of its board of directors and executive president; (b) a separation of the administration of pensions, health care provision and financing management to ensure greater transparency in the use of resources; and (c) a transfer of management, operational, programming and budgeting functions from the central level to the regional levels.

2. (a) A study to review the existing management information system at CCSS; and (b) design and operation of an improved management information system for CCSS.

3. (a) A program of training activities for senior management, middle management and service delivery staff at CCSS related to the design and implementation of the institutional reforms referred to in Part A.1 above and to the delivery of more efficient and quality health care services; and (b) a study on: (i) the analysis of the existing personnel policies, staffing patterns and incentives for personnel at CCSS and the implications of the civil service law; and (ii) personnel policies, norms and procedures, and staffing patterns required by CCSS to implement its institutional reforms.

4. (a) Strengthening the CCSS pharmaceutical and medical supplies system to improve its efficiency and to provide more effective support to health care services including: (i) the rehabilitation of the central warehouse (bodega central) and regional storage facilities; (ii) the design and operation of stock control mechanisms to prevent stock shortages and over-stocking; (iii) the design and operation of mechanisms for quality control; (iv) the development and utilization of specifications and selection criteria for medical supplies, updating of existing catalogs and design of criteria and terms of reference for the evaluation committees; (v) the streamlining of the procurement processes; (vi) the review of legal norms and processes on procurement procedures aiming at proposing improvements in the context of the institutional reforms of CCSS; and (vii) the analysis of cost effective measures for timely distribution of drugs and medical supplies to health facilities; and (b) rationalizing the use of drugs through the implementation of a plan of measures, agreed between the CCSS and the Bank, including the design of educational materials on use and prescription of drugs for medical professionals, pharmacists and patients and operational research; and design and operation of an improved system for supervision, control and monitoring of prescription of drugs.

Part B: Redefined Primary Health Care Model, Quality Assurance and Hospital Study

1. A program to implement the Redefined Primary Health Care Model in the Health Regions commencing in 1993 in Huetar Norte. The program shall comprise:

(a) the acquisition and utilization of medical equipment for the Health Centers and Health Posts in the Health Areas;

(b) the development and utilization of a quality assurance system to monitor health indicators, clinic staffing and workload, medical procedures and patient satisfaction; and

(c) technical assistance for the operation of the Basic Health Teams.

2. A study to review the secondary and tertiary health care levels and make proposals to reform such levels for improving the quality of services, achieving greater participation of the private sector and offering financing alternatives.

Part C: Resource Management and Pilot Testing of Alternative Models of Health Care Financing

1. Development and utilization of a budgeting system based on programs and related outcomes and a complementary monitoring and evaluation information system to improve the incentives for health service managers to encourage cost control and efficiency, and increase transparency in the use of CCSS resources at all levels of the health care system.

2. A series of studies related to the improvement of economic incentives to stimulate affiliation to the CCSS, discourage underreporting of incomes and encourage contribution by independent workers; such studies to consist on: (a) the impact of non-contribution and evasion on CCSS revenues; (b) an actuarial review of the adequacy of current premium levels in the context of the Redefined Primary Health Care Model; and (c) an analysis of the current methods utilized by CCSS to calculate the costs of benefits provided to the Indigent Population and how these costs are recovered from the Borrower's treasury.

3. A series of studies related to the process of reporting earnings and the collection of social security contributions; such studies to consist on: (a) a review of the current reporting of earnings and collection system and proposals for the design of an improved collection system; (b) the development of specific procedures to enable CCSS to match reported incomes with other agencies or entities of the Borrower and a methodology to control the level of evasion in coordination with the MF and the Borrower's department of income tax; (c) the design and implementation of an effective auditory process; (d) the modernization of the current computerized system utilized to bill and collect social security payments; and (e) the development of an automated system of control of contributions in the area of inspections which would integrate the central and regional levels.

4. Studies on: (a) an analysis of the feasibility of utilizing alternative revenue sources; (b) the development of mechanisms to ensure that providers, the CCSS and the Borrower's central administration comply with the contracts for transfer of resources to the CCSS health insurance fund; and (c) the development of a framework for effective and equitable cost-recovery measures.

5. (a) A study to evaluate existing models of provisions of health care and financing (cooperatives, medicina de empresa, medicina mixta, libre eleccion medica); (b) development and utilization of a methodology to calculate the unit costs of different types of services at facilities according to complexity level; (c) the design and operation of alternative systems for hospital administration of financial and personnel resources, accounting and budgeting procedures, and inputs to the information system on hospital administration; (d) design and operation of a module of the information system to enable CCSS to improve identification of affiliated members of the social security system; and (e) design and utilization of quantitative indicators to measure the effect of alternative delivery and financing models.

6. The design and pilot testing of alternative financing and administration mechanisms including pilot models at the primary level, tertiary level (National Children's Hospital) and the integrated health area level in the province of Alajuela.

Part D: National Health Surveillance and Quality Control Laboratory

Strengthening of the institutional capabilities of INCIENSA to develop a national laboratory including: (1) a study to develop recommendations to transform INCIENSA into a national institution and laboratory for health surveillance and quality control; and (2) rehabilitation and expansion of laboratories.

Part E: Project Administration

Operation of the PCU including the acquisition and utilization of a monitoring system and equipment, and technical assistance related thereto.

* * *

The Project is expected to be completed by July 31, 1998.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
July 15, 1998	515,000
January 15, 1999	535,000
July 15, 1999	555,000
January 15, 2000	575,000
July 15, 2000	600,000
January 15, 2001	620,000
July 15, 2001	645,000
January 15, 2002	665,000
July 15, 2002	690,000
January 15, 2003	720,000
July 15, 2003	745,000
January 15, 2004	770,000
July 15, 2004	800,000
January 15, 2005	830,000
July 15, 2005	860,000
January 15, 2006	895,000
July 15, 2006	925,000
January 15, 2007	960,000
July 15, 2007	995,000
January 15, 2008	1,035,000
July 15, 2008	1,070,000
January 15, 2009	1,110,000
July 15, 2009	1,155,000
January 15, 2010	1,195,000
July 15, 2010	1,240,000
January 15, 2011	1,295,000

* 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 civil 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).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$250,000 or more.

Part B: Preference for Regional Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, a margin of preference may be granted to bids offering goods described in the accompanying specification which are manufactured to a substantial extent in any country, including Costa Rica, which is a party to the Mercado Comen Centroamericano, the common market created by the General Treaty for Central American Economic Integration signed at Managua, Nicaragua on December 13, 1960 by Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica (hereinafter called the CACM), in accordance with, and subject to, the following provisions:

1. For the purposes of Part B of this Schedule, the following definition shall apply:

(a) (i) the term "Qualified CACM Bid" means a bid submitted by a manufacturer established in the territories of member countries, including Costa Rica, of the CACM, for goods manufactured or processed in such territories and for which the bidders shall have established to the satisfaction of the entity or agency inviting bids that the manufacturing or processing cost of such goods include a value added in such territories equal to at least 20% of the ex-factory bid price of such goods;

(ii) the term "non-Qualified CACM Bid" means a bid submitted by a manufacturer established in the territories of member countries, including Costa Rica, of the CACM, for goods manufactured or processed in such territories, other than any such bid classified as a Qualified CACM Bid; and

(iii) the term "Foreign Bid" means any bid which is neither a Qualified CACM Bid or a Non-Qualified CACM Bid.

2. All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted and shall set forth the information required to establish the eligibility of a bid for such preference.

3. Bidders are required to state in their bid the c.i.f. (port of entry) price of imported goods and the ex-factory price of locally manufactured goods.

4. Except to the extent hereinafter provided, bids will be compared on the basis of their ex-factory or c.i.f. (port of entry) price adjusted in accordance with paragraphs 2.49 through 2.54 of the Guidelines.

5. After evaluation, responsive bids will be classified in one or the following groups: Qualified CACM Bids, Non-qualified CACM Bids or Foreign Bids.

6. All bids in each group will be first compared among themselves, to determine the lowest evaluated bid in each such group. The lowest evaluated bids of each group will then be compared with each other and if, as a result of this comparison, an evaluated Qualified CACM Bid or Non-Qualified CACM Bid is the lowest it will be selected for purpose of award.

7. If the lowest bid in the comparison under paragraph 6 above is a Foreign Bid, all Foreign Bids will be further compared with the lowest evaluated Qualified CACM Bid as determined under paragraph 6 above. For the purposes of this comparison only, each Foreign Bid will be compared on the basis of the sum of its c.i.f. (port of entry) price adjusted in accordance with the provisions of paragraph 4 above, plus an amount equal to the smaller of: (a) the difference between the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of goods offered in such Foreign Bid and that applicable to a Qualified CACM Bid; or (b) 15% of the c.i.f. bid price of such goods. If the Qualified CACM Bid is the lowest evaluated bid in such comparison, it shall be selected for the purpose of award; otherwise, the lowest evaluated Foreign Bid as determined under paragraph 6 above shall be so selected.

Part C: Other Procurement Procedures

1. Civil works 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 per contract, up to an aggregate amount equivalent to \$1,400,000, and contracts for the printing of training materials and manuals estimated to cost the equivalent of less than \$25,000 per contract, up to an aggregate amount equivalent to \$500,000, 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 \$50,000 or less, up to an aggregate amount equivalent to \$500,000, and contracts for the printing of training materials and manuals estimated to cost the equivalent of \$50,000 or less, up to an aggregate amount equivalent to \$500,000, 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: Special Provisions

Without limitation upon the provisions of this Agreement and the Guidelines in respect of procurement of goods and works:

1. Pursuant to Part A of this Section:

(a) In respect of the procurement of civil works, bids shall not be rejected on the grounds that they fall outside a pre-determined bracket.

(b) In respect of the procurement of civil works and goods, bid securities issued by foreign sureties shall be admissible without the endorsement, counter-guarantee or other participation by any Costa Rican bank, the National Insurance Agency (Instituto Nacional de Seguros) of Costa Rica or other person or entity.

2. Pursuant to Parts A and C of this Section, bidding procedures shall provide for suitable mechanisms, acceptable to the Bank, for price adjustments reflecting

increased costs of all contractors and suppliers.

3. In the procurement of goods and civil works under the procedures referred to in Part C.1 and C.2, standard bidding documents, satisfactory to the Bank, shall be utilized.

Part E: Review by the Bank of Procurement Decisions

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

(a) With respect to each contract for goods and works procured under the procedures referred to in Part A of this Schedule and the first contract for civil works procured under the procedures referred to under Part C.1 of this Schedule and the first contract for goods procured under the procedures referred to under Part C.2 of this Schedule, 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 from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower and CCSS in carrying out the Project, the Borrower and CCSS shall employ 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower and CCSS shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower and CCSS shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$50,000 equivalent each. However, this exception to prior Bank review shall not apply to the terms of reference for such contracts or to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Bank or to amendments of contracts raising the contract value to \$50,000 equivalent or above.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$1,400,000 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.

