Loan Agreement

(Fiscal Management Improvement Project)
(Hacienda Digital para el Bicentenario)

between

REPUBLIC OF COSTA RICA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
LOAN AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF COSTA RICA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank").

WHEREAS, the activities described under Schedule 1 to this Agreement concerning the modernization and digitalization of the MoF have the purpose of facilitating tax and customs services and payments, reducing fiscal evasion, improving budget efficiency, strengthening debt management, and transforming the MoF’s institutional culture to place the citizens at the center as clients.

The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

2.01. The Bank agrees to lend to the Borrower the amount of one hundred and fifty-six million six hundred and forty thousand Dollars (USD156,640,000), as such amount may be converted from time to time through a Currency Conversion ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.

2.03. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.

2.04. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are May 15 and November 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.
ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project, through MoF, in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) That the Borrower has prepared and adopted the Operational Manual in a manner acceptable to the Bank.

(b) That the PCU has been established and staffed as provided under Sections I.A.1 and I.A.2 of Schedule 2 to this Agreement and in a manner satisfactory to the Bank.

(c) That the Steering Committee has been established as provided under Section I.A.4 of Schedule 2 to this Agreement and in a manner satisfactory to the Bank.

4.02. The Effectiveness Deadline is the date one hundred and eighty (180) days after the Signature Date.

ARTICLE V — REPRESENTATIVE; ADDRESSES

5.01. The Borrower’s Representative is its Minister of Finance.

5.02. For purposes of Section 10.01 of the General Conditions:

(a) the Borrower’s address is:

Ministerio de Hacienda
Calle 1 y 3 Avenida 2
Diagonal al Teatro Nacional
San José, Republic of Costa Rica; and

(b) the Borrower’s Electronic Address is:

Facsimile: E-mail:
(506)2547-4264 despachomh@hacienda.go.cr

5.03. For purposes of Section 10.01 of the General Conditions:

(a) the Bank’s address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America; and
(b) the Bank’s Electronic Address is:

Telex: 248423(MCI) or 64145(MCI)  
Facsimile: 1-202-477-6391  
E-mail: vsakho@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF COSTA RICA

Authorized Representative

Name: Rodrigo A. Chaves Robles
Title: Ministro de Hacienda
Date: 06 abril 2020

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Authorized Representative

Name: Y. Seynabou Sakho
Title: Director Central America
Date: 01-Apr-2020
SCHEDULE 1

Project Description

The objective of the Project is to improve efficiency, effectiveness and client orientation of tax and customs administration, and public expenditure management.

The Project consists of the following parts:

Part 1: Strengthening Public Expenditure Management

1. Strengthening MoF’s expenditure policy and planning through the provision of support for, inter alia: (a) the development of a fiscal management strategy; (b) the design and application of tools for evidence-based decision making, including periodic spending reviews and program evaluations; (c) the integration of climate change, disaster risk management and gender considerations in expenditure planning; (d) the strengthening of public investment practices in portfolio and asset management and of expenditure planning, including the development of medium-term fiscal, expenditure and budgeting instruments; (e) the systematic application of program and results-informed budgeting; (f) the consolidation of fiscal information and reporting for fiscal management purposes; and (g) the strengthening of the SOE oversight unit’s governance and policy functions, including support for engagement with selected SOEs.

2. Streamlining and control of public expenditure cycle through the provision of support for, inter alia: (a) the review and update of the public expenditure cycle institutional, legal and operational framework; (b) the simplification and streamlining of public financial management processes and procedures; (c) the expansion of the single treasury account; (d) the application of accounting and financial reporting international standards; (e) improvements in arrears management and controls; (f) the strengthening of capacity to design and implement a debt management strategy, an issuance program and a price discovery system; (g) the streamlining of income registration for budget and accounting; (h) the strengthening of payroll controls and asset management procedures.

3. Modernizing integrated public financial management information systems through, inter alia, enhancements in their functionality, technology and interconnectivity.

Part 2: Enhancing Efficiency and Client Orientation of Tax Administration

1. Streamlining and automating core tax processes through the modernization and simplification of DGT’s and DGH’s operational processes including, inter alia: (a) the mapping and reengineering of core tax administration business processes; (b) the development of functional and technical requirements and bidding documents for a new tax administration software; (c) the implementation of an integrated tax information management system to automate refined processes and support the planning, execution, control and monitoring of fiscal management; (d) the development of a robust taxpayer current account and an integrated tax compliance model; (e) the development of a case manager for administration and tracking of internal issues and taxpayers procedures; (f) the improvement of the taxpayer registry and e-invoicing functionality; (g) the
development of digital services for tax; and (h) the update of the existing tax administration system regulatory framework to allow for implementation and sustainability of the updated processes, technologies, and systems.

2. Improving citizen and business taxpayer services through, inter alia, the implementation of client-facing applications.

3. Design and implementation of a comprehensive, targeted and risk-based compliance strategy to promote more efficient use of data and tax information sources for preventive controls, tax auditing, and enforcement, including, inter alia: (a) the design and implementation of an integrated risk management system; (b) the introduction of advance audit techniques and mechanisms to automatically match third-party information and enable a more effective detection of evasion and tax fraud; (c) the reform of DGT’s appeal system to reduce contact between tax officials and taxpayers; and (d) the carrying out of risk management activities through the use of an advanced data analytics platform.

Part 3: Enhancing Customs Controls and Services

1. Strengthening customs controls and clearance procedures, including, inter alia: (a) the mapping and reengineering of core customs administration business processes; (b) the replacement of the TICA system and the development of the requirements and bidding documents for a new customs management system; (c) the enhancement of cooperation and training across sectors; (d) the update of the Borrower’s customs administration regulatory framework, and the implementation of tools and methodologies to improve the efficiency and effectiveness of the customs administration; (e) the acquisition of a modern customs management system and a customer relationship management software; (f) the provision of support to strengthen DGA’s and PCF’s technical capacities, including the set-up of an operational policy and sustainability strategy for the adoption of modern technologies and better management of data for intelligence and risk management; and (g) the acquisition of laboratory equipment and other tools to improve connectivity, mobility and productivity.

2. Improving trade facilitation services through the provision of financing for, inter alia: (a) the provision of technical support to accelerate the release and clearance of goods; (b) the development of digital services and online and mobile applications to ease trade services; (c) the development of a trade information portal; (d) the provision of support for data integration between customs, the trade single window and other border agencies to expedite border clearance and provide accurate information; (e) the provision of training on new procedures for traders; and (f) the carrying out of time release studies and activities to reduce bottlenecks in trade processes.

3. Implementing a risk-based framework and post-clearance audit through the development and implementation of a robust risk management framework to improve the performance of DGA and the PCF and promote a more efficient use of information sources for customs auditing, control, and enforcement, including, inter alia: (a) the carrying out of an assessment and the provision of support for the implementation of successful and good practice customs initiatives; (b) the acquisition of non-intrusive technologies to support risk management, including the carrying out of an assessment to determine the specific needs for each customs post, the appropriate custom post location, technical specifications
and management arrangements for the operation, maintenance and updating of equipment; and (c) the provision of technical assistance to prepare a data integration model for the core customs processes.

**Part 4: Strengthening the Technological, Institutional and Operational Environment**

1. Strengthening MoF’s human resource management functions through, *inter alia*: (a) the development and implementation of an integrated human resources management strategy and HRMIS; (b) the update of staffing plans for revenue and expenditure administrations; (c) the establishment of a robust performance and career management framework; (d) the definition of a rigorous screening process for staff recruitment; (e) the implementation and strengthening of an internal capacity development and knowledge management program for MoF; (f) the development of the requirements and bidding documents for the HRMIS system; (g) the implementation of a web-based HRMIS system to support decentralized operations; (h) the modernization of human resources systems and internal communication models; (i) the improvement of MoF human resources’ internal audit function and internal investigation unit; and (j) the design and implementation of a comprehensive transparency strategy.

2. Modernization and integration of MoF’s information and communication technology infrastructure and the provision of support for the implementation of the digital transformation agenda.

3. Provision of operational support and the carrying out of change management activities, including, *inter alia*: (a) the provision of technical assistance to manage and provide quality assurance of bidding documents, proposals and deliverables of information and communication technology; (b) the carrying out of capacity building activities to institute envisaged reforms and achieve expected results; (c) the implementation of a change management strategy; and (d) the carrying out of management capacity building activities and a public education campaign.

4. Provision of financing to address technical and policy issues to support MoF’s reform process.

**Part 5: Project Management and Capacity Building**

Provision of support for Project coordination and management to ensure successful and timely delivery of Project activities and results, including the provision of support to the PCU for, *inter alia*: (a) Project management and monitoring; (b) the carrying out of fiduciary tasks, including internal controls and audits for the Project; and (c) the carrying out of stakeholder outreach activities for awareness on the Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Borrower, through MoF, shall establish, and thereafter operate and maintain, at all times during Project implementation, the Project coordination unit ("PCU"), with structure, functions and responsibilities acceptable to the Bank, as set forth in the Operational Manual, including, inter alia, the responsibility of the PCU to implement, monitor and supervise the carrying out of the Project (including its financial, procurement and safeguards aspects).

2. The Borrower, through MoF, shall ensure that the PCU is, during Project implementation, assisted by professional staff (including, inter alia, a Project coordinator, a financial management specialist, a procurement specialist, and specialists, as needed, on environmental and social aspects) and administrative staff, all in numbers and with terms of reference, and qualifications and experience, acceptable to the Bank.

3. No later than three (3) months after the Effective Date, the Borrower, through MoF, shall establish, and thereafter operate and maintain, throughout Project implementation, technical teams, comprised of representatives with functions and responsibilities acceptable to the Bank and defined in the Operational Manual, for purposes of, inter alia, providing technical support for supervising the implementation of the corresponding Project activities, and engage in on-the-job and formal training activities, as required.

4. The Borrower, through MoF, shall establish, and thereafter operate and maintain, throughout Project implementation, a committee (the "Steering Committee"), chaired by MoF and comprised of representatives with functions and responsibilities acceptable to the Bank and defined in the Operational Manual, including, inter alia: (a) the provision of strategic guidance and overall policy coordination; (b) the oversight of proposed reforms and Project implementation progress; (c) the setting of priorities for the Project; (d) the resolution of conflicts; and (e) inter-ministerial collaboration.

5. No later than nine (9) months after the Effective Date, the Borrower, through MoF, shall develop a fiscal management strategy, consistent with the objective and Parts of the Project and as part of the Borrower process to define its enterprise architecture strategy, all in a manner acceptable to the Bank and in accordance with the criteria established in the Operational Manual.

B. Operational Manual.

1. The Borrower shall, and shall cause the Project to be carried out, in accordance with the provisions of a manual ("Operational Manual"), which shall include, the rules, methods, guidelines, standard documents and procedures for the carrying out of the Project, including but not limited to the following: (a) a detailed description of Project implementation activities and the detailed institutional arrangements for the Project; (b) the
Project's administrative, budgeting, accounting, auditing, reporting, financial, procurement and disbursement procedures; (c) the monitoring indicators for the Project; (d) the institutional and administrative mechanisms established to ensure inter-institutional coordination; and (e) the functions, responsibilities and composition of the Steering Committee.

2. The Borrower shall not amend or waive or fail to enforce any provision of the Operational Manual without the Bank's prior written approval. In case of any conflict between the terms of any of the Operational Manuals and those of this Agreement, the terms of this Agreement shall prevail.

C. Environmental and Social Standards.

1. The Borrower shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Bank.

2. Without limitation upon paragraph 1 above, the Borrower shall ensure that the Project is implemented in accordance with the ESCP, in a manner acceptable to the Bank. To this end, the Borrower shall ensure that:

   (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, and as further specified in the ESCP;

   (b) sufficient funds are available to cover the costs of implementing the ESCP;

   (c) policies, procedures and qualified staff are maintained to enable it to implement the ESCP, as further specified in the ESCP; and

   (d) the ESCP or any provision thereof, is not amended, revised or waived, except as the Bank shall otherwise agree in writing and the Borrower has, thereafter, disclosed the revised ESCP.

In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. The Borrower shall:

   (a) take all measures necessary on its part to collect, compile, and furnish to the Bank through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Bank, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Bank, setting out, inter alia: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and

   (b) promptly notify the Bank of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers, in accordance with
4. The Borrower shall maintain and publicize the availability of a grievance mechanism, in form and substance satisfactory to the Bank, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Bank.

Section II. Project Monitoring Reporting and Evaluation

The Borrower shall furnish to the Bank each Project Report not later than one month after the end of each calendar semester, covering the calendar semester.

Section III. Withdrawal of Loan Proceeds

A. General.

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to finance Eligible Expenditures in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consulting services, Training and Workshops and Operating Costs for the Project</td>
<td>156,640,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>156,640,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed $31,328,000 may be made for payments made prior to this date but on or after February 24, 2020 (but in no case more than one year prior to the Signature Date), for Eligible Expenditures.

2. The Closing Date is March 31, 2026.
SCHEDULE 3

Commitment-Linked Amortization Repayment Schedule

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Installment Share").

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15</td>
<td>1.82%</td>
</tr>
<tr>
<td>Beginning May 15, 2026 through November 15, 2052</td>
<td></td>
</tr>
<tr>
<td>On May 15, 2053</td>
<td>1.72%</td>
</tr>
</tbody>
</table>
APPENDIX

Definitions

1. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.

2. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.

3. “DGA” means Dirección General de Aduanas, the General Customs Directorate of MoF.

4. “DGH” means Dirección General de Hacienda, the General Treasury Directorate of MoF.

5. “DGT” means Dirección General de Tributación, the General Directorate of Taxation of MoF.

6. “DTIC” means Dirección de Tecnologías de Información y Comunicación, the Directorate of Technologies and Communications of MoF.


9. “ESCP” means Environmental and Social Commitment Plan, the Borrower’s environmental and social commitment plan, agreed to between the Borrower and the Bank, dated February 24, 2020, which sets out the material measures and actions the Borrower shall carry out or cause to be carried out to address the potential environmental and social risks and impacts of the Project, including the timing of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any instruments to be prepared thereunder; as the ESCP may be revised from time to time, with prior written agreement of the Bank.

11. "MoF" means the Borrower’s Ministry of Finance.

12. "Operating Costs" means the incremental expenses incurred by the Borrower, through MoF, on account of Project implementation, supervision, monitoring and evaluation, which may include office supplies, rental expenses, reasonable commercial banking charges and fees, communication and insurance costs, operation and maintenance of office equipment, office maintenance, utilities, document duplication/printing, travel cost and per diem of staff assigned to carry out responsibilities under the Project (but excluding consulting services), none of which would have been incurred in the absence of the Project.

13. "Operational Manual" means the manual referred to under Section I.B.1 of Schedule 2 to this Agreement.

14. "PCF" means the Fiscal Control Police of MoF.

15. "Procurement Regulations" means, for purposes of paragraph 85 of the Appendix to the General Conditions, the "World Bank Procurement Regulations for IPF Borrowers", dated July 2016, revised November 2017 and August 2018.

16. "Signature Date" means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.

17. "SOE" means a state-owned enterprise.

18. "Steering Committee" means the committee referred to under Section I.A.4 of Schedule 2 to this Agreement.

19. "TICA" means Tecnología de Información para el Control Aduanero, the Borrower’s Information Technology for Customs Control.

20. "Training and Workshops" means reasonable costs, as shall have been approved by the Bank, for training and workshops conducted under the Project, including tuition, travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation (but excluding goods and consulting services).