

Japanese Grant Agreement

No. 2

(Financial Markets Project)

between

REPUBLIC OF CHILE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

as Administrator of Grant Funds
provided by the
GOVERNMENT OF JAPAN

Dated July 13, 1990

JAPANESE GRANT AGREEMENT

No. 2

AGREEMENT, dated July 13, 1990, between the REPUBLIC OF CHILE (the Recipient) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as Administrator (the Administrator) of grant funds provided by the GOVERNMENT OF JAPAN (Japan).

WHEREAS (A) pursuant to a letter agreement, dated June 3, 1987, between Japan and the Bank, Japan has requested the Bank, and the Bank has agreed, to administer grant funds to be made available by Japan for the financing of certain programs and projects supported by the Bank in accordance with the provisions of such letter agreement;

WHEREAS (B) the Recipient has requested and Japan has agreed to make available to the Recipient a grant (the Grant) out of said grant funds to finance the cost of carrying out the technical assistance described in Schedule 2 to this Agreement (the Technical Assistance) on the terms and conditions hereinafter set forth; and

WHEREAS (C) the Recipient and the Bank have in September, 1989 entered into a Japanese Grant Agreement for purposes of financing the technical assistance described therein, in connection with the Financial markets Project.

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 (the General Conditions) constitute an integral part of this Agreement, subject, however, to the following modifications thereto:

(a) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof, means the International Bank for Reconstruction and Development acting as Administrator of the Grant pursuant to the letter agreement between Japan and the Bank referred to in Recital (A) of this Agreement, except that in section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;

(b) the term "Borrower," wherever used in the General Conditions, means the Recipient;

(c) the term "Loan Agreement," wherever used in the General Conditions, means this Agreement;

(d) the term "Loan," wherever used in the General Conditions, means the Grant;

(e) the term "Loan Account," wherever used in the General Conditions, shall be amended to read the Grant Account;

(f) the term "Project," wherever used in the General Conditions, means the technical assistance described in Schedule 1 to this Agreement;

(g) the term "Japanese Grant Special Account" means the special account referred to in Section 2.02 (b) of this Agreement;

(h) Section 4.01. shall be modified to read:

"Withdrawals from the Grant Account shall be made in yen; provided, however, that if the expenditures to be financed out of the proceeds of the Grant have been paid or are payable in another currency, the Administrator shall, at the request of the Recipient, purchase such currency with the proceeds of such withdrawal.";

(i) Sections 2.01 (5), (7), (12), (13), (14), (15), (16), (17) and (19), 3.02, 3.03, 3.04, 3.05, 4.02, 4.03, 4.04, 4.05, 4.06, 4.07, 4.08, 4.10, 6.02 (a)(i), 6.02 (g), 6.02 (h), 6.05, 6.07, 7.01, 8.01 (a), 9.01 (b), 9.02, 9.03, 10.02, 12.01, 12.02, 12.03, 12.04 and 12.05 are deleted;

(j) The second and third sentences of Section 4.09 are deleted; and

(k) All references to "the Guarantor, wherever such term is used in the General Conditions, shall not apply to this Agreement.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth; and the following terms shall have the following meanings:

(a) "yen" and Y means the currency of Japan;

(b) "Central Bank means Banco Central de Chile, the Central Bank of Chile;

(c) "Institute of Banking Studies" means Instituto de Estudios Bancarios;

(d) "SBIF" means Superintendencia de Bancos e Instituciones Financieras", the Superintendency of Banks and Financial Institutions of the Borrower;

(e) "SVS" means Superintendencia de Valores y Seguros, the Securities and Insurance Superintendency of the Borrower;

(f) "SAFP" means Superintendencia de Administradoras de Fondos de Pensiones, the Superintendency of the Pension Fund Administrators of the Borrower;

(g) "SII" means Servicio de Impuestos Internos, the Internal Revenue Service of the Borrower; and

(h) "Administrative Unit" means the unit to be maintained by the Recipient pursuant to the provisions of Section 3.01 (b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. The Administrator agrees; to extend to the Recipient, on the terms and conditions herein set forth or referred to, the Grant in an amount of two hundred and sixty million, five hundred thousand yen (Y260,500,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and the Administrator.

(b) The Recipient shall, for purposes of the Technical Assistance, open and maintain in yen a special deposit account in a bank acceptable to the Administrator on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Japanese Grant Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1995 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Technical Assistance

Section 3.01. (a) The Recipient shall carry out the Technical Assistance with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Technical Assistance.

(b) Without limitation to the obligations of the Recipient pursuant to paragraph (a) above, the Recipient for purposes of the Technical Assistance shall establish by September 30, 1990, and thereafter shall maintain an administrative unit, the staffing of which may consist fully or in part of consultants employed in accordance with Section 3.02 below, the functions, staffing and Responsibilities of the Administrative Unit to be satisfactory to the Administrator.

(c) The Recipient shall carry out the Technical Assistance in accordance with a timetable acceptable to the Administrator.

Section 3.02. Except as the Administrator shall otherwise agree, procurement of the goods and consultants' services required for the Technical Assistance and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. (a) The Recipient shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Technical Assistance of the departments or agencies of the Recipient responsible for carrying out the Technical Assistance or any part thereof.

(b) The Recipient shall:

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

(ii) furnish to the Administrator as soon as available, but in any case not later than four 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 Administrator shall have reasonably requested; and

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

ARTICLE IV

Effectiveness; Termination

Section 4.01. This Agreement shall become effective upon its execution by the parties hereto.

Section 4.02. This Agreement shall continue in effect until the Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE V

Representation; Transfer of Rights and Obligations

Section 5.01. The Minister of Finance of the Recipient shall be the representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministerio de Hacienda
Teatinos 120, Piso 12
Santiago, Chile

Telex:

241334-MHDA-CL

For the Administrator:

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:

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

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/ Pablo Pinera Echenique

Ministro de Hacienda Subrogante

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
as Administrator of the Grant

By /s/ Armeane M. Choksi

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amount of the Grant to each Category and the percent age of expenditures for items so to be financed in each Category:

	Amount of the Grant Allocated (Expressed in Yen)	% of Expenditures to be Financed
(1) Flow of Funds Accounts (Part 1 of the Techni- cal Assistance)	49,925,000	100%
(2) Institute of Banking Studies Courses - Study on the availability of financing in cooperation with SBIF (Part 2 of the Technical Assistance)	11,658,000	100%
(3) Ministry of Finance: Development of Informa- tion Systems (Part 3 of the Technical Assistance)	33,147,000	100%
(4) SBIF: Banking Statistics Information Systems Development and Studies (Part 4 of the Technical Assistance)	24,795,000	100%
(5) SVS: Risk Rating and Information Systems Development (Part 5 of the Technical Assistance)	6,525,000	100%
(6) SAFP: Study of investment possibilities for pension funds (Part 6 of the Technical	2,175,000	100%

	Assistance)		
(7)	Treasury (Ministry of Finance) (Part 7 of the Technical Assistance)	31,900,000	100%
(8)	Technology Development Seminar (Part 8 of the Technical Assistance)	10,875,000	100%
(9)	Study of demand for funds for technological investigation (Part 9 of the Technical Assistance)	8,700,000	100%
(10)	Study of the modernization of technological institutes (Part 10 of the Technical Assistance)	7,250,000	100%
(11)	Study of availability of long-term financing for small and medium sized companies (Part 11 of the Technical Assistance)	4,350,000	100%
(12)	SII: strengthening of control systems (Part 12 of the Technical Assistance)	29,000,000	100%
(13)	Study of impact of lines of credit on the development of the Chilean capital market (Part 13 of the Technical Assistance)	2,900,000	100%
(14)	Services of consultants employed within the Administrative Unit	12,325,000	100%
(15)	Unallocated	24,975,000	
	TOTAL	260,500,000	

2. Notwithstanding the provisions of paragraph 1 above:

(a) no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of Y 26,000,000 may be made on account of payments made for expenditures before that date but after January 1, 1990, and (b) no withdrawals shall be made for goods not eligible under this Agreement.

SCHEDULE 2

Description of Technical Assistance

1. Flow of Funds Accounts

Definition of the methodology and statistical requirements for constructing annual flow of funds matrices and estimating these accounts for the initial year, with the purpose of setting up a complete system of national accounts within a coherent framework.

2. Institute of Banking Studies Courses: Study on the availability of financing in cooperation with SBIF.

The carrying out by the Institute of Banking Studies of: (i) four seminars for high- and medium level executives; and (ii) a seminar for entrepreneurial management.

3. Ministry of Finance: Development of Information Systems

The provision of technical support to update the computer systems of the Budget Directorate of the Recipient's Ministry of Finance, and the acquisition, installation and utilization of computer equipment, software and supporting office equipment for such Directorate.

4. SBIF: Banking Statistics Information Systems Development and Studies

(a) The provision of support for improvements in banking supervision by means of studies relating to: (i) regulatory issues associated with credit cards; (ii) supervisory issues relating to money desk operations; (iii) banking mergers and take-overs; (iv) venture capital in banks; and (v) securitization;

(b) The development of information systems for banking surveillance; and

(c) Consultant support in the context of working group on housing finance.

5. SVS: Risk Rating and Information Systems Development

(a) Determination of the norms that the private risk classifiers should adhere to when rating insurance companies, enhancement of SVS's capabilities to collect and interpret data pertaining to securities markets, and acquisition for SVS of computer equipment and software; and

(b) Conducting a seminar to disseminate information on securities issuance techniques.

6. SAFF: Study

A study, to be supervised by SAFF, of all the possibilities for the investment of the resources of the pension funds and the possible changes required to diversify their investment portfolios.

7. Treasury (Ministry of Finance): Systems Development

The enhancement of the efficiency of the Treasury through, inter alia, systems development involving the acquisition of appropriate computer equipment and software.

8. Technology Development Seminar

Conducting a seminar and workshop that will bring together foreign and national experts on technology development and guide the Recipient in its formulation of technology policies.

9. Study of demand for funds for technological investigation

A study that will identify the factors that influence the demand for technological activities and the associated demand for financing. The study will also propose a design for a National Technology Development Fund and determine the amount of funds that should be channel led through it.

10. Study of the modernization of the Technology Institutes

A study that will examine both the present structure and operations of the Technology Institutes operating under the auspices of Corporacion de Fomento de la Produccion and put toward proposals for modernizing them.

11. Study of long term financing for small and medium sized companies

A study on how to overcome the constraints on the financing of the small and medium sized companies through the private financial markets.

12. SII: Strengthening of control systems

Studies and the provision of equipment and training to strengthen the SII.

13. Study of the impact of lines of credit

A study that will review Chile's experience in channelling lines of credit to the private sector from the Bank and other multilateral institutions, focussing centrally on the issue of whether such lines impede the development of an indigenous capital market.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Goods shall be procured under procedures satisfactory to the Bank.

Section II. Employment of Consultants

In order to assist the Recipient in carrying out the Project, the Recipient shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Administrator. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Administrator 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 Administrator in August 1981.

SCHEDULE 4

Japanese Grant Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (14) 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 Technical Assistance and to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to Y 26,000,000 to be withdrawn from the Grant Account and deposited into the Japanese Grant Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Japanese Grant Special Account shall be made exclusively for

Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Administrator has received evidence satisfactory to it that the Japanese Grant Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Japanese Grant Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Administrator 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 Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit in the Japanese Grant Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator 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 Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Japanese Grant Special Account such amount as the Recipient 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 Administrator from the Grant 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 Recipient out of the Japanese Grant Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Japanese Grant Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Recipient directly from the Grant 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 Grant less the amount of any outstanding special commitment entered into by the Administrator pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Japanese Grant Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of the Japanese Grant 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 Administrator, the Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Japanese Grant Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Japanese Grant Special Account shall be made until the

Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in the Japanese Grant Special Account will not be required to cover further payments for Eligible Expenditures, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Recipient may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Japanese Grant Special Account.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

