

CONFORMED COPY

LOAN NUMBER 3143-CH

Project Agreement

(Financial Markets Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

CORPORACION DE FOMENTO DE LA PRODUCCION

Dated February 7, 1990

LOAN NUMBER 3143-CH

PROJECT AGREEMENT

AGREEMENT, dated February 7, 1990, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CORPORACION DE FOMENTO DE LA PRODUCCION (CORFO).

WHEREAS (A) by the Loan Agreement of even date herewith between the REPUBLIC OF CHILE (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred thirty million dollars (\$130,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that CORFO agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a funds transfer arrangement to be entered into between the Borrower and CORFO, a portion of the proceeds of the loan provided for under the Loan Agreement will be made available to CORFO, as the financial agent of the Borrower on the terms and conditions set forth in set forth in said Funds Transfer Arrangement; and

WHEREAS CORFO, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined

in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) CORFO declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and commercial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for carrying out Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and CORFO shall otherwise agree, CORFO shall carry out Part A of the Project, as the financial agent of the Borrower, in accordance with the Leasing Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. CORFO shall enter into and duly perform all its obligations under the Funds Transfer Arrangement. Except as the Bank shall otherwise agree, CORFO shall not take or concur in any action which would have the effect of failing to enforce, amending, abrogating, assigning or waiving the Funds Transfer Arrangement or any provision thereof.

Section 2.03. 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 1 to this Agreement.

Section 2.04. CORFO shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating respectively to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part A of the Project.

Section 2.05. (a) CORFO shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and under the Funds Transfer Arrangement, and other matters relating to the purposes of the Loan.

(b) CORFO shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Loan, or the performance by CORFO of its obligations under this Agreement under the Funds Transfer Arrangement.

ARTICLE III

Management and Operations of CORFO

Section 3.01. CORFO shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, and commercial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) CORFO shall maintain records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the resources and expenditures in respect of Part A of the Project and its operations and financial condition, and shall maintain procedures and records adequate to monitor and record the progress of each Leasing Sub project.

(b) CORFO shall:

(i) have the records and accounts referred to in Section 4.01(a) of this Agreement and its financial statements (balance sheets, statements of income and expenses and related statements) 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 four months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) 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, accounts and financial statements as well as 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, in accordance with Section 4.01 of this Agreement, 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 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 (a) 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

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of CORFO thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify CORFO thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radio gram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such

party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United State of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For CORFO:

Corporacion de Fomento de la Produccion
Moneda 921
Santiago, Chile

Telex:

240690 CORFO CL
240421

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of CORFO may be taken or executed by the Vicepresidente Ejecutivo or such other person or persons as the Vice Presidente Ejecutivo shall designate in writing, and CORFO shall furnish to the Bank sufficient evidence of the authority and the authenticated Specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Husain

Regional Vice President
Latin America and the Caribbean

CORPORACION DE FOMENTO DE LA
PRODUCCION

By /s/ Julio Canessa

Authorized Representative

SCHEDULE 1

Procurement and Goods

Section I: Procurement of Imported Goods under Part C of the Project

Part A: International Competitive Bidding

1. Contracts for the procurement of goods under Part C of the Project estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding 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 1985 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the, following is substituted there for:

"2.8 Notification and Advertising

The international community should be notified in timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general circulation in the Borrower's country and, in addition at least one of the following forms:

- or
- (i) a notice in the United Nations Publication Development Business;
- of wide
- (ii) an advertisement in a newspaper, periodical or technical journal international circulation; or
 - (iii) a notice to local representatives of countries and, territories referred to in the Guidelines, that are potential suppliers of the goods required."

(b) The following is added at the end of paragraph 2.21 of the Guidelines: "As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."

(c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

Part B: Other Procurement Procedures

Contracts for the procurement of goods under Part C of the Project estimated to cost the equivalent of less than \$5,000,000 shall be awarded:

(a) by purchasers subject to the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided that such procedures shall have been found acceptable by the Bank;

(b) by other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation and comparison of quotations obtained from suppliers from at least two countries, except where direct contracting is permitted under paragraph 3.5 of the Guidelines.

Section II: Procurement of Goods under Part A of the Project

Part A: International Shopping

Goods or groups of goods under Part A of the Project estimated to cost the equivalent of \$500,000 or more per contract shall be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least two different countries eligible under the Guidelines.

Part B: Other Procurement Procedures

Contract for goods under Part A of the Project estimated to cost less than the equivalent of \$500,000 shall be awarded in accordance with established commercial practices acceptable to the Bank.

Section III: Review by the Bank of Procurement Decisions

1. With respect to each contract referred to in Section I, Part A of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Bank shall reasonably request.

2. With respect to each contract referred to above in Section I, Part B and Section II of this Schedule, the Borrower shall furnish to the Bank, prior to the submission to the Bank of the first application for withdrawal of funds from the Loan Account in respect thereof, such documentation and information as the Bank may reasonably request to support withdrawal applications in respect of such contract. When 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 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Loan Agreement.

SCHEDULE 2

Leasing Implementation Program

Section I. General Covenants

1. CORFO undertakes that, unless the Bank shall otherwise agree, it shall on lend the proceeds of the Loan allocated for Part A of the Project by making Subloans to Eligible Enterprises for purposes of financing Leasing Subprojects, in accordance with the terms and conditions set forth or referred to in this Schedule and in Schedule 3 to this Agreement.

2. (a) When making a Subloan to finance a Leasing Subproject, CORFO shall enter a written contract, satisfactory to the Bank, with each Eligible Enterprise which shall include the terms and conditions and general provisions set forth in Schedule 3 to this Agreement.

(b) Except as the Bank shall otherwise agree, CORFO shall not waive or fail to enforce any provision of any Leasing Subloan Agreement.

3. CORFO shall exercise its rights in relation to each Leasing Subproject in such manner as to: (i) protect the interest of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section II. Auction Procedures

1. When making Subloans to finance Leasing Subprojects, CORFO shall auction the right to receive a Subloan under procedures, satisfactory to the Bank, and which shall include, inter alia, those set forth in this Section.

2. Auctions shall be held by CORFO at least once every three months.

3. CORFO's executing agent's fee shall be factored into Minimum Rates for auctioned Sub loans.

4. Minimum Rates for auctioned Subloans shall be recommended by an advisory committee of representatives of Central Bank, Ministry of Finance and CORFO and such recommendations and the setting of such rates by CORFO shall be determined utilizing a methodology satisfactory to the Bank.

5. CORFO shall retain the right to reject any bid for a Subloan on the basis that: (a) the bidder is not an Eligible Enterprise; (b) that the Subloan proposes to finance equipment other than Eligible Equipment; (c) the bid does not meet the minimum

charges for a Subloan; (d) the terms and conditions proposed by the bidder are not consistent with the terms and conditions required by the Schedules to this Agreement; or (e) for any other basis acceptable to the Bank.

6. CORFO shall charge a penalty fee to an Eligible Enterprise that has been awarded the right to receive Sub-loan pursuant to an auction, but which has not entered into a Leasing Subloan Agreement, or has not drawn down the entire principal of the Subloan in question, within a specified period of time acceptable to the Bank.

Section III. Eligible Enterprises

1. In order to be qualified to receive a Subloan an enterprise must:

(a) be privately held and registered with the SVS or SBIF;

(b) be classified as an issuer in risk category "A" by at least two risk classification companies registered with SVS or SBIF or, if it is a newly instituted enterprise which is not yet eligible to receive such classification, it must satisfy such standards of creditworthiness as are acceptable to the Bank; and

(c) not have more than 35% of its indebtedness financed by CORFO or from CORFO resources, inclusive of amounts lent pursuant to Subloans under this Project.

Section IV. Eligible Equipment

1. In order to be qualified as eligible, equipment must be goods that:

(a) can be utilized, and are intended to be utilized, for productive purposes within the territory of the Borrower;

(b) are not included in the Negative List;

(c) are not unsafe due to untried technology or the potential to cause environmental, public health or personal harm;

(d) are not used capital goods or vehicles for personal use;

(e) have not been previously financed under the Project; and

(f) have not been previously owned by the lessee in question.

2. No expenditures for equipment required for a Leasing Subproject shall be eligible for financing out of the proceeds of the Loan unless:

(a) the Leasing Subproject shall have been approved by the Bank and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the application and information required under paragraph 3 (a) of this Section IV in respect of such Leasing Subproject; or

(b) the Leasing Subproject shall have been a free-limit Leasing Subproject for which the Bank has authorized withdrawals from the Loan Account and such expenditures shall have been made not earlier than ninety days prior to the date on which the Bank shall have received the request and information required under paragraph 3 (b) of this Section IV in respect of such free-limit Leasing Subproject. For the purposes of the Loan Agreement and this Agreement, a free-limit Leasing Subproject shall be a Leasing Subproject in an amount to be financed out of the proceeds of the Loan in connection with which the purchase price of the equipment in question shall not exceed the sum of \$1,000,000 equivalent, when added to any other outstanding amounts financed or proposed to be financed out of the proceeds of the Subloan in question and used to finance equipment to be leased to the lessee in question, the foregoing amount being subject to change from time to time as determined by the Bank.

3. (a) When presenting a Leasing Subproject (other than a free limit Leasing Subproject) to the Bank for approval, CORFO shall furnish to the Bank an application, in form satisfactory to the Bank, together with (i) a description of the Eligible Enterprise and of the lessee and an appraisal of the Leasing Subproject, including a

description of the expenditures proposed to be financed out of the proceeds of the Loan; (ii) the proposed terms and conditions of the Leasing Subproject, including the financial terms and conditions in connection with the purchase and lease of the equipment in question; and (iii) such other information as the Bank shall reasonably request.

(b) Each request by the Borrower for authorization to make withdrawals from the Loan Account in respect of a free-limit Leasing Subproject shall contain: (i) a summary description of the Eligible Enterprise, the lessee and the Leasing Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Loan, and (ii) the financial terms and conditions in connection with the purchase and lease of the equipment in question.

(c) Applications and requests made pursuant to the provisions of sub-paragraphs (a) and (b) of this paragraph shall be presented to the Bank on or before December 31, 1994.

SCHEDULE 3

Terms and Conditions of Subloans

Section I. Terms and Conditions

Each Subloan, unless otherwise agreed by the Bank, shall include the following terms and conditions:

(i) Currency. Sub loans shall be denominated in pesos or in dollars, and shall be repayable in pesos, any rate of exchange to be determined as of the date of each repayment;

(ii) Term. Sub loans may be made for a term of up to ten years and may not include a grace period, such term not to exceed the period during which the proceeds of the Subloan remain invested by the Eligible Enterprise in one or more Leasing Sub-projects.

(iii) Interest Rate. The interest rate on each Subloan shall be determined by prevailing market conditions as determined by each auction held by CORFO pursuant to the procedures set forth in Schedule 2 to this Agreement, provided, however, that each Subloan shall bear at least a minimum annual interest rate equivalent to the average interest charged on UF-indexed peso loans in Chile, calculated in a manner acceptable to the Bank if such Subloan is denominated in pesos, or a rate equivalent to LIBOR if such Subloan is denominated in dollars.

(iv) Maximum Percentage of Financing. A Subloan may finance up to 100% of the total costs of each Leasing Subproject, exclusive of taxes. The total cost of each Leasing Subproject shall be calculated in a manner satisfactory to the Bank and shall be based on the reasonable price of Eligible Equipment.

Section II. General Provisions

Each Leasing Subloan Agreement shall provide:

(i) for the obligation of the Eligible Enterprise to carry out and operate the Leasing Subproject with diligence and efficiency and in accordance with appropriate financial, administrative and commercial standards and practices;

(ii) that the equipment to be financed out of the proceeds of the Loan shall be procured in accordance with Schedule 1 to this Agreement.

(iii) that the equipment to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of a Leasing Subproject;

(iv) that CORFO can inspect by itself, or jointly with representatives of the Borrower and the Bank if the Borrower or the Bank shall so request, the Eligible Equipment financed by the Subloan and any relevant records or documents;

(v) for the obligation of the Eligible Enterprise to furnish all such information as the Borrower, the Bank, or CORFO shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Eligible Enterprise and to the benefits to be derived from the Leasing Subproject; and

(vi) the right of CORFO to suspend or terminate the right of the Eligible Enterprise to the use of the proceeds of the Subloan upon failure by such Eligible Enterprise to perform any of their obligations under the contract with CORFO.

