

CONFORMED COPY

LOAN NUMBER 7458-CH

Loan Agreement

(Institutional Strengthening of the Ministry of Public Works Technical Assistance Project)

between

REPUBLIC OF CHILE

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 29, 2007

LOAN AGREEMENT

Agreement dated November 29, 2007, between REPUBLIC OF CHILE (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, the amount of eleven million seven hundred thousand Dollars (\$11,700,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“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 payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section III of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall carry out the Project through MOPW in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank’s approval of the Loan which expires on December 15, 2008.

ARTICLE V — REPRESENTATIVE; ADDRESSES

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

5.02. The Borrower's Address is:

Ministry of Finance
Teatinos 120
Santiago, Chile

Facsimile: (56-2) 698-8903

With copy to:

Ministry of Public Works
Morandé 59
Santiago, Chile

Facsimile: (56-2) 698-8347

5.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Santiago, Chile, as of the day and year first above written.

REPUBLIC OF CHILE

By /s/ Andrés Velasco

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pedro Alba

Authorized Representative

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

By: /s/ Pamela Cuzmar Poblete
Authorized Representative

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

By: /s/ Ramiro Mendoza Zúñiga
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Borrower in achieving:

- (a) a sustainable and integrated approach to the planning of infrastructure;
- (b) levels of service standards for infrastructure as well as model contracts and procedures that promote competition and assign risks appropriately;
- (c) an integrated project management process;
- (d) a regulatory framework for MOPW's sectors of responsibility that increases user confidence in infrastructure service provision; and
- (e) organizational separation of the planning, contracting, execution and regulatory functions of infrastructure provision.

The Project consists of the following parts:

Part I: Integrated Planning

1. Design of a Long-Term Planning Methodology for MOPW's Infrastructure Development:

- (a) Design of a methodology for the planning process of infrastructure investments at the strategic level (national level and long-term planning) as well as at the tactical level (sub-national level and medium-term planning).
- (b) Design of an environmental evaluation methodology to be included in the planning process and provision of training on such methodology.
- (c) Design of a strategy of transition towards implementation of the planning methodology referred to in 1.(a) above, and for the monitoring of such planning process.

2. Implementation of a Long-Term Planning Methodology:

- (a) Development of components of a strategic national infrastructure plan using the methodology developed under Part I.1.(a) above.
- (b) Design and implementation of an information system, database and geographic information system (GIS).
- (c) Design of policies for long-term planning in the areas of land use, resettlement, transport and water resources management.
- (d) Implementation of the transition strategy referred to in Part I.1.(c) above, including implementation of an internal and external communication plan, and dissemination of

the various infrastructure plans developed under Part I.2.(a) above through workshops, courses and seminars.

3. Carrying out of studies and training related to the development of a sustainable and integrated approach to the planning of infrastructure, as proposed by the Borrower and agreed to by the Bank.

Part II: Standards, Contracts, Competitiveness

1. Establishment of Service Standards:

(a) Establishment of a methodology for setting, evaluating and updating MOPW's standards of service.

(b) Development of a standard-of-service manual that assigns standards according to type of contract, sub-sector, cost or cost categories and demand levels.

(c) Training of MOPW's and other selected agencies' staff in the use of service standards.

(d) Strengthening the capacity of the MOPW's staff to apply the service standards referred to in Part II.1.(a) above, to the design of infrastructure projects.

2. Contracts and Competitive Processes:

(a) Analysis of MOPW's current contracts and bid processes as well as those used in international best practices.

(b) Development of a database of MOPW's public works contracts and concessions.

(c) Assessment of the variables of contract design and bidding processes against their ability to generate competition and investment results.

(d) Design of model contracts for each primary type of modality of contracting of infrastructure works, and each sub-sector, based on international best practices.

(e) Analysis of appropriate risk allocations in contracts by modality and sub-sector.

3. Carrying out of studies and training related to the development of service standards for infrastructure as well as model contracts and procedures that promote competition and assign risks appropriately, as proposed by the Borrower and agreed to by the Bank.

Part III: Project Management

1. Design of an Integrated Project Management Model:

(a) Detailed design of the MOPW's project management model.

(b) Establishment of information and software tools to accompany the project management model designed under (a) above.

2. Implementation of an Integrated Project Management Model:

Carrying out of communications and capacity building plans to accompany the implementation of the project management model developed under Part III.1.(a) above.

3. Carrying out of studies and training related to the development of an integrated management process in MOPW, as proposed by the Borrower and agreed to by the Bank.

Part IV: Strengthening of Regulation of Infrastructure Works

1. Development of rules and regulations for the oversights of public works contracts and concessions, including:

(a) an operations manual to lay out the procedures for such oversight; and

(b) economic and financial models, and their accompanying regulatory accounting manuals, for public-private partnerships for selected infrastructure sectors.

2. Carrying out of studies and training related to the development of a regulatory framework for MOPW's sectors of responsibility that increases user confidence in infrastructure service provision, as proposed by the Borrower and agreed to by the Bank.

Part V: Organizational Reform

1. Norms and Regulations:

(a) Provision of technical assistance for the redrafting of the bill for the establishment of oversight mechanisms for public contracts and concessions.

(b) Provision of technical assistance for drafting or redrafting, as the case may be, of other laws and regulations needed for implementation of the Program.

2. Institutional Development:

Definition of alternative arrangements for MOPW's reform in accordance with the proposed legal changes referred to in Part V.1 above, including:

(a) Design of changes to the institutional structure of MOPW consistent with any legal or regulatory reforms implemented under the Program.

(b) Design of the work scope and institutional arrangements that would integrate the management of water resources.

(c) Establishment of: (i) a cadastre or registry of existing MOPW norms; (ii) procedures that regulate the creation, evaluation and approval of new norms; (iii) procedures for

populating, maintaining, disseminating and updating information systems; and (iv) a web-based database of the new norms and procedures.

- (d) Development of a human resource strategy based on performance for MOPW.
 - (e) Development of an information technology strategy to support the quality and efficiency of MOPW's business processes.
3. Carrying out of studies and training related to the development of an organizational separation of the planning, contracting, execution and regulatory functions of infrastructure provision, as proposed by the Borrower and agreed to by the Bank.

SCHEDULE 2

Project Execution

Section I. Project Monitoring Reporting and Evaluation

A. Project Reports

1. (a) The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five days after the end of the period covered by such report.
- (b) The Borrower shall, not later than September 30 each year, commencing September 30, 2008, review with the Bank the progress in the implementation of the Project and the Program and in particular any modifications to the Project as per the needs of Program implementation.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than forty-five days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section II. Procurement

A. General

1. Goods and Non-Consultants' services. All goods and non-consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. Consultants' Services. All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the

requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-Consultants' Services

1. **National Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and non-consultants' services shall be procured under contracts awarded on the basis of National Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods and non-consultants' services.** The following table specifies the methods of procurement, other than National Competitive Bidding, which may be used for goods and non-consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Shopping

3. *Chilecompra and Convenio Marco* may be used as an alternative to National Competitive Bidding or Shopping provided that the Borrower: (i) compares at least three prices of qualified suppliers and providers that meet the specifications of the bid or request for offers; and (ii) awards the contract to the lowest price bidder.

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraphs 2 and 3 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. Other Methods of Procurement of Consultants' Services. The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Quality-Based Selection.
(b) Fixed-Budget Selection
(c) Least-Cost Selection.
(d) Single Source Selection.
(e) Selection based on Consultants' Qualifications

3. (a) The call for expression of interest and award of contracts for consultant services costing \$100,000 equivalent or more, and which are selected following the

procedures set forth in paragraph 2 above, shall be published in the *Chilecompra* portal.

- (b) For consultant services for contracts estimated to cost below \$100,000 equivalent the procedures of *Chilecompra* may be followed as a form, acceptable to the Bank, of Single Source Selection.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section III. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, non-consultants' services, consultants' services and Training for the Project	10,570,750	100%
(2) Refund of the Project Preparation Advance	1,100,000	Amount payable pursuant to Section 2.07 (a) of the General Conditions
(3) Front-end Fee	29,250	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07 (c) of this Agreement
TOTAL AMOUNT	11,700,000	

For the purposes of this Schedule the term “Training” means the reasonable non-consultant expenditures incurred by the Borrower in connection with the carrying out of the training activities, including travel costs, *per diem* of trainers and trainees, fees and related costs for training facilitators, training materials, and rental of training facilities and equipment.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made from the Loan Account (other than to repay the Project Preparation Advance), for payments made prior to the date of this Agreement.
2. The Closing Date is January 31, 2013.

SCHEDULE 3

Amortization Schedule

1. 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”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each April 15 and October 15	
Beginning October 15, 2012 through April 15, 2022	5%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “Category” means a category set forth in the table in Section III of Schedule 2 to this Agreement.
2. “*Chilecompra*” means the electronic procurement system set forth in the Borrower’s Law No. 19886 of August 29, 2003, published in the Borrower’s Official Gazette, dated July 30, 2003 and its regulations set forth in Supreme Decree No. 250 of September 24, 2004.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
4. “*Convenio Marco*” means the bidding procedure set forth in *Chilecompra* whereby the goods that could be purchased from qualified providers, selected in open competition by the Borrower’s Purchasing Directorate, are listed in a catalogue with the authorized terms and conditions (including prices) of such goods for purchases by any of the Borrower’s agencies.
5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
6. “Indicators” means the performance indicators set forth in the letter from the Borrower to the Bank, dated May 4, 2007.
7. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
8. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 4, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
9. “Program” means the program designed to improve the Borrower’s efficiency in the use of public resources, and increase transparency, competition and citizen participation in contracting of public works and set forth or referred to in the letter dated April 30, 2007 from the Borrower to the Bank.
10. “Project Preparation Advance” means the advance referred to in Section 2.07 (a) of the General Conditions, granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on August 18, 2006 and on behalf of the Borrower on October 13, 2006.
11. “MOPW” means the Borrower’s Ministry of Public Works.

