

**CONFORMED COPY**

**LOAN NUMBER 7269-CH**

# **Loan Agreement**

**(Infrastructure for Territorial Development Project)**

**between**

**REPUBLIC OF CHILE**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated March 18, 2005**

**LOAN NUMBER 7269-CH**

**LOAN AGREEMENT**

AGREEMENT, dated March 18, 2005, between REPUBLIC OF CHILE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

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 for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means any individuals, family, group of families, community, or Municipality located in a rural area, or an association comprising rural Municipalities, which benefits from a PMDT or Subproject pursuant to the criteria set forth in the Operational Manual and, in respect of ICT Subprojects, any school, health center or other public service facility;

(b) “Beneficiary Agreement” means the agreement to be entered into between the Borrower, through an Implementation Technical Unit, and each Beneficiary pursuant to Section 3.01 (d) (ii) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the Beneficiary Agreement;

(c) “CNE” means *Corporación Nacional de Energía*, the Borrower’s agency in charge of energy development established pursuant to the Borrower’s Decree Law 2224 published in the Official *Gazette* on June 8, 1978;

(d) “CONADI” means *Corporación Nacional de Desarrollo Indígena*, the Borrower’s agency in charge of indigenous peoples development established pursuant to Title VI of the Borrower’s Law 19.253 published in the Official *Gazette* on October 5, 1993;

(e) “CONADI Agreement” means the Agreement to be entered into between the Borrower, through the Regional Government, and CONADI (ratified by MIDEPLAN) pursuant to the provisions of Section 3.01 (e) of this Agreement as the same may be amended from time to time; and such term includes all schedules to the CONADI Agreement;

(f) “Electricity Subproject” means a set of activities or investments covered by Part B. 1 (c) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(g) “Eligible Region” means any of the Borrower’s regions of Coquimbo, Maule, Bio Bio, Araucanía and Los Lagos and any other region as may be proposed by the Borrower and agreed to by the Bank;

(h) “Environmental Management Framework” means the framework for the management of environmental aspects of the Project set forth in a letter from SUBDERE to the Bank dated November 18, 2004;

(i) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “ICT” means Information and Communications Technology Infrastructure;

(k) “ICT Subproject” means a set of activities or investments covered by Part B. 1 (d) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(l) “Implementation Technical Unit” means MOPTT, CNE or other governmental agency, a Municipality, a legally established company, a cooperative or a community-based organization which meets the criteria of the Operational Manual to carry out a Subproject;

(m) “IPDP” means the indigenous peoples plan set forth in a letter from SUBDERE to the Bank dated November 18, 2004;

(n) “MIDEPLAN” means *Ministerio de Planificación y Cooperación*, the Borrower’s Ministry of Planning and Cooperation;

(o) “MOPTT” means *Ministerio de Obras Públicas, de Transportes y de Telecomunicaciones*, the Borrower’s Ministry of Public Works, Transport and Telecommunications;

(p) “Municipality” means any of the municipalities referred to in the Borrower’s Municipalities Organic Law No. 18.695 published in the Official *Gazette* on March 31, 1988 as amended to the date of this Agreement;

(q) “National Directorate” means the Directorate referred to in Section 3.01 (b) (i) (A) of this Agreement;

(r) “National PCU” means the Project coordination unit referred to in Section 3.01 (b) (i) (B) of this Agreement;

(s) “Official *Gazette*” means the Borrower’s *Diario Oficial*;

(t) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(u) “Performance Indicators” means the indicators set forth in the Operational Manual;

(v) “Procurement Plan” means the Borrower’s procurement plan, dated November 18, 2004, covering the initial 12 month period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(w) “Regional Council” or “CORE” means the council referred to in Chapter III of the Borrower’s Organic Law for Regional Governments No. 19.175 published in the Official *Gazette* on March 20, 1993;

(x) “Regional Government” means the government of an Eligible Region as referred to in Title II of the Borrower’s Organic Law for Regional Governments No. 19.175 published in the Official *Gazette* on March 20, 1993;

(y) “Regional PCU” means any of the Project coordination units referred to in Section 3.01 (b) (ii) of this Agreement;

(z) “Resettlement Policy Framework” means the resettlement policy framework set forth in a letter from SUBDERE to the Bank dated November 18, 2004;

(aa) “Road Sector Subproject” means a set of activities or investments covered by Part B. 1 (a) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual;

(bb) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(cc) “SUBDERE” means *Subsecretaría de Desarrollo Regional y Administrativo*, the Borrower’s Subsecretariat for Regional Development within its Ministry of the Interior;

(dd) “SUBDERE/Eligible Region Agreement” means the agreement to be entered into between the Borrower, through SUBDERE, and each Regional Government pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the SUBDERE Eligible Region Agreement;

(ee) “Subprojects” means collectively Road Sector Subprojects, Water and Sanitation Subprojects, Electricity Subprojects, and ICT Subprojects;

(ff) “Subproject Implementation Agreement” means the agreement to be entered into between the Borrower, through the Regional Government, and each Implementation Technical Unit pursuant to Section 3.01(d) (i) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the Subproject Implementation Agreement;

(gg) “Territorial Development Framework Plan” or “PMDT” means a framework plan to support the development of a Territory within an Eligible Region

which: (i) integrates rural infrastructure and productive investments; (ii) is prepared by a Regional Government following the participatory procedures set forth in the Operational Manual; and (iii) is favorably endorsed by the Regional Council based on the eligibility criteria set forth in the Operational Manual;

(hh) “Territory” means a geographic area within an Eligible Region selected based on the development priorities and potential of such area and following the procedures set forth in the Operational Manual; and

(ii) “Water and Sanitation Subproject” means a set of activities or investments covered by Part B. 1 (b) of the Project which is eligible for financing in accordance with the criteria set forth in the Operational Manual.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to fifty million two hundred and sixty thousand Dollars (\$50,260,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and operating costs required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in its Central Bank (or a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment). Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on June 15 and December 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 said 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 Section 2.01(7) of 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 in respect of 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 such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The Subsecretary for SUBDERE and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project, and, to this end, shall carry out the Project, through SUBDERE and the Regional Governments, with the assistance of the Implementation Technical Units, with due diligence and efficiency and in conformity with appropriate economic, financial, technical, social and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

- (b) The Borrower shall:
- (i) before commencing implementation of the Project establish and thereafter maintain at the national level:
    - (A) a national directorate:
      - (I) comprising SUBDERE, MIDEPLAN, MOPTT, and the Borrower’s Ministries of Economy, Agriculture, and Finance (through its Budget Directorate); and



(II) with powers and responsibilities which shall include, *inter alia*, powers to decide on policies and strategies as needed to meet the Project's objectives, to facilitate inter-institutional agreements or arrangements between relevant governmental institutions as needed for the implementation of the Project; to provide institutional support to the Regional Governments as they may require it; and to facilitate the allocation of budgetary resources for Territories by the relevant agencies of the Borrower; and

(B) a Project coordination unit; and

(ii) before commencing implementation of the Project in any of the Eligible Regions, establish through the Regional Governments in coordination with SUBDERE and thereafter maintain, a Project coordination unit for said Eligible Region,

the National PCU and the Regional PCUs with duties and responsibilities as set forth in the Operational Manual and staffed with personnel with qualifications and experience satisfactory to the Bank.

(c) The Borrower shall, through SUBDERE, before commencing the implementation of Parts A and B of the Project, enter into an agreement with the respective Regional Government, under terms and conditions substantially similar to those of the model form contained in the Operational Manual, such agreement to provide for:

(i) the transfer to such Regional Government of the funds required to finance the preparation and monitoring of PMDTs and Subprojects;

(ii) the obligation of such Regional Government to follow the requirements of this Agreement and the Operational Manual in respect of such PMDTs and Subprojects; and

(iii) the commitment of such Regional Government to arrange for the implementation and financing of the productive investments of the PMDT.

(d) The Borrower shall, through the Regional Government, before commencing implementation of any Subproject, enter into an agreement, under terms and conditions substantially similar to those of the model form contained in the Operational Manual, with:

- (i) the respective Implementation Technical Unit to provide for, *inter alia*: (A) the Regional Government's obligation to make available to the Implementation Technical Unit the proceeds of the Loan required for implementation of the Subproject; (B) the Implementation Technical Unit's obligation to carry out the Subproject following the requirements of this Agreement and the Operational Manual, including any actions required from such unit in the implementation of the IPDP, the Resettlement Policy Framework and the Environmental Management Framework; and
- (ii) the respective Beneficiary to set forth the Beneficiary's obligations for the operation and maintenance, as the case may be, of the Subproject.

(e) The Borrower shall, through the Regional Government before commencing implementation of any PMDT or Subproject in Eligible Regions with indigenous populations, enter into an agreement, satisfactory to the Bank, with CONADI, ratified by MIDEPLAN, to provide for, *inter alia*, CONADI's obligation to: (i) assist in the implementation of the IPDP; and (ii) facilitate the processing and granting of any land and water use rights as may be needed for implementation of Subprojects.

(f) The Borrower shall exercise its rights and carry out its obligations under each of the SUBDERE/Eligible Region Agreements, the Subproject Implementation Agreements and the Beneficiary Agreements, and the CONADI Agreement, in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce any SUBDERE/Eligible Region Agreements, Subproject Implementation Agreements, or Beneficiary Agreements or the CONADI Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

(c) The Borrower shall, not later than June 30, 2005, establish and commence operating a procurement management system in SUBDERE satisfactory to the Bank.

Section 3.03. The Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to include, *inter alia*:

(a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, financial and environmental requirements thereof);

(b) the criteria for the approval, implementation, monitoring and evaluation of PMDTs and Subprojects including the technical, social and economic criteria approved by MIDEPLAN for evaluation of such Subprojects;

(c) the criteria for eligibility of Territories, PMDTs, Subprojects and Beneficiaries;

(d) model agreements for implementation of PMDTs and Subprojects with: (i) Regional Governments; (ii) Implementation Technical Units; and (iii) Beneficiaries; and

(e) the IPDP, the Resettlement Policy Framework, the Environmental Management Framework, the procedures to safeguard cultural property and the Performance Indicators. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.04. The Borrower shall through SUBDERE:

(a) to maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objective thereof;

(b) to prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and yearly thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and

setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and

- (c) (i) to review with the Bank, within no more than two months after each such report's preparation, the reports referred to in paragraph (b) of this Section; and
- (ii) thereafter, to take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

Section 3.05. Without limitation to the provisions of Sections 3.03 (e) of this Agreement, the Borrower shall through SUBDERE:

- (a) (i) prior to the implementation of a Subproject in which the Resettlement Policy Framework applies, furnish to the Bank for its prior approval, the resettlement plan prepared in accordance with such Framework; and
  - (ii) thereafter: (A) enter into the inter-institutional agreements that may be necessary; and (B) carry out such resettlement plan in accordance with its terms; and
- (b) carry out the IPDP in accordance with its terms.

Section 3.06. The Borrower shall, not later than a date two years after the Effective Date:

- (a) furnish to the Bank for its review and comments, the methodology developed under Part C.4 (a) of the Project; and
- (b) thereafter test and apply such methodology in the evaluation of Subprojects, as appropriate.

Section 3.07. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be

agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall, through SUBDERE, maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall, through SUBDERE:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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, through SUBDERE:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.04 of this Agreement, the Borrower shall, through SUBDERE, prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. (a) Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that any Implementation Technical Unit shall have failed to perform any of its obligations under the respective Subproject Implementation Agreement or CONADI shall have failed to perform any of its obligations under the CONADI Agreement.

(b) Notwithstanding the rights contained in Section 6.02 of the General Conditions, it is understood that, if any of the events specified in paragraph (a) of this Section shall have occurred, the Bank may, by notice to the Borrower, suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures in respect of the concerned Subproject.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower.

## **ARTICLE VI**

### **Effective Date; Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

- (a) SUBDERE has adopted the Operational Manual;
- (b) the Borrower has issued a decree, in form and substance satisfactory to the Bank, establishing the National Directorate; and
- (c) SUBDERE has established the National PCU.

Section 6.02. The date June 16, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VII**

**Representative of the Borrower; Addresses**

Section 7.01. Except as provided in Section 2.10 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Teatinos 120  
Santiago, Chile

Facsimile: (56-2) 698-8903

For the Bank:

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)	(202) 477-6391



IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Santiago, Chile, as of the day and year first above written.

REPUBLIC OF CHILE

By /s/ Nicolas Eyzaguirre Guzmán  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Axel van Trotsenburg  
Acting Regional Vice President  
Latin America and the Caribbean

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

By: /s/ Gianni Lambertini López  
Authorized Representative

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

By: /s/ Noemí Rojas Llanos  
Authorized Representative

Witnessed by:

/s/ José Manuel Insulza Salinas  
Minister of the Interior

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars</u>	<u>% of Expenditures to be financed</u>
(1) Subprojects:		
(a) works and goods	31,760,000	50%
(b) consultants' services	7,240,000	70%
(2) Consultants' services (other than for Subprojects) and Training:	)	70%
	)	
(a) for Part A of the Project	2,625,000)	
	)	
(b) for Parts B.2 and B.3 of the Project	1,825,000)	
	)	
(c) for Part C of the Project	3,122,000)	
(3) Goods other than for Subprojects	250,000	70%
(4) Incremental Operating Costs	308,000	70%
(5) Front-end fee	251,300	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(7) Unallocated	<u>2,878,700</u>	
TOTAL	<u>50,260,000</u>	

2. For the purposes of this Schedule:

(a) the term “Incremental Operating Costs” means communication, office supply, and local travel costs directly related to the performance of the Project activities by the National PCU and the Regional PCUs which would not have been incurred absent the Project; and

(b) the term “Training” means the non-consultant expenditures incurred by the Borrower in connection with the carrying out of the training activities under Parts B and C of the Project, including local travel costs, per diem of trainers, trainees, facilitators and stakeholders, and training materials.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$5,000,000, may be made on account of payments made for expenditures before that date but after November 1, 2004; and

(b) payments made for expenditures for Part A and B of the Project in respect of an Eligible Region unless the respective: (i) SUBDERE/Eligible Region Agreement has been entered into by the parties thereto; and (ii) the Regional PCU has been established.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for:

(a) goods and consultants’ services (other than for Subprojects) in respect of which prior review of contracts is not required pursuant to Section IV of Schedule 4 to this Agreement;

(b) Subprojects, in respect of which prior review of contracts is not required pursuant to Section IV of Schedule 4 to this Agreement; and

(c) training and incremental operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to increase the effective and productive use of sustainable infrastructure services by poor rural communities in Territories of the Eligible Regions.

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

#### Part A: Participatory Territorial Planning

Preparation, monitoring and evaluation of Territorial Development Framework Plans in Eligible Regions including, *inter alia*, the carrying out of: (a) socio-economic and environmental diagnostic studies of the Eligible Region and Territory; and (b) consultations with Beneficiaries, Municipalities and other stakeholders.

#### Part B: Infrastructure Service Delivery

1. Carrying out of feasibility studies and provision of rural infrastructure services in transport, water and sanitation, electricity and ICT as needed under the PMDTs for:

(a) upgrading of existing secondary rural roads, paths, bridges and foot bridges as needed to improve transportation accessibility to and from the Territories (Road Sector Subproject);

(b) rehabilitation and construction of piped water systems, point source water improvements, on-site sanitation and sewers with appropriate treatment processes (Water Supply and Sanitation Subproject);

(c) expansion or upgrade of grid-based electricity supply facilities and installation or upgrade of least-cost renewable energy or conventional energy systems in remote areas, for productive and other use (Electricity Subproject); and

(d) enhancement of the connectivity of the Territories to the telecommunications access network (ICT Subproject).

2. Establishment and strengthening of a local service providers program to operate, maintain and administer such services, including:

(a) assisting micro-enterprises in their constitution, putting in place contract arrangement and payment systems, and providing on-the-job management training to staff of micro-enterprises;

(b) carrying out, supervising and monitoring pilot programs of road maintenance by micro-enterprises including a dissemination campaign among Municipalities to sensitize them about the benefits of the micro-enterprise maintenance program;

(c) assisting water and sanitation providers in the improvement of their management structures at the community level, analysis of tariff structures and hygiene and water conservation practices dissemination; and

(d) assisting electricity and ICT service providers to set up business models to operate the customer interface of the service.

3. Training and dissemination workshops for Municipalities' staff to strengthen their capacity in infrastructure service provision, operation and maintenance, and monitoring.

#### Part C: Institutional Strengthening

Strengthening the Borrower's capacity to deliver infrastructure services based on a territorial approach including:

1. (a) strengthening the capacity of SUBDERE and the Eligible Regions through the establishment of the National PCU and the Regional PCUs, and the training of their staff; and

(b) training of Implementation Technical Units and other agencies involved in territorial development.

2. Establishment of a monitoring and evaluation system, including the collection of baseline data in SUBDERE.

3. Information dissemination, learning and communications campaigns to systematize good practices and build a foundation for expanding the territorial

development approach (including PMDTs and Subprojects) to other regions of the country.

4. Carrying out of studies to improve the Borrower's policy and institutional framework for territorial development and management at the regional level including:

(a) development of a new methodology for the technical, social and economic evaluation of investments (including Subprojects) based on a territorial approach, as well as development of streamlined procedures for approving simple and low-cost investments in small communities;

(b) identification of new approaches in the water and sanitation sector for *inter alia*: (i) the provision of services to rural dispersed populations; (ii) improved cost recovery; (iii) introduction of lower cost technologies; and (iv) legal recognition of community-based water and sanitation service providers; and

(c) development of a rural transport policy including: (i) enhancements of incentives for transport service providers in isolated areas; (ii) identification of road safety issues in the rural (secondary) network and strategies to address them; and (iii) definition of a medium-term strategy for the articulation of responsibilities at the local level in the management of the road networks within their jurisdictions.

\* \* \*

The Project is expected to be completed by December 31, 2009.

### 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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
June 15, 2010	25 %
December 15, 2010	25 %
June 15, 2011	25 %
December 15, 2011	25 %

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.



## **SCHEDULE 4**

### **Procurement**

#### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. National Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of National Competitive Bidding using standard bidding documents satisfactory to the Bank, including the following provisions:

1. All bid-related documents shall be submitted together with the bid, and bidders shall not be required to submit any bid related documents in advance of the deadline for submission of bids.

2. All bids received on or before the deadline for bid submission shall be admitted for evaluation at the bid opening ceremony.

3. The evaluation process shall be confidential and, after the public bid opening, information relating to the bids, their examination and recommendations concerning awards shall not be disclosed to bidders or other persons not officially concerned with this process until the publication of contract award, except for the results of the post-qualification process, which should precede the opening of the second bid envelope.

4. Unit price contracts for works construction shall be priced on the basis of unit prices quoted by bidders after correction of computation errors, and maintaining the total bid price and changing unit prices in accordance to official cost estimates (“compensatory pricing”) is not acceptable.

5. Foreign contractors shall be allowed to bid and such contractors shall not be required to: (a) register as a condition for bidding; or (b) have a local representative to bid. Foreign contractors shall, however, register before contract signature.

**B. Other Procurement Procedures**

1. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$45,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

2. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

3. Community Participation. Goods, works and services required for Subprojects not exceeding \$100,000 equivalent per Subproject may be procured on the basis of community participation in accordance with the procedures set forth in the Operational Manual.

**Section III. Particular Methods of Procurement of Consultants’ Services**

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. Contracts shall be awarded on the basis of proposals received from a short-list of qualified consultants and no open bidding shall be carried out. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

**B. Other Procedures**

1. Selection Based on Consultants’ Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines and Section V of this Schedule.

2. Single Source Selection. Services for tasks required for the preparation of PMDTs and Subprojects in circumstances which meet the requirements of paragraph of 3.10 of the Consultants Guidelines for Single Source Selection, and estimated to cost not more than \$20,000 equivalent per contract may, with the Bank's prior agreement, be procured from non-governmental organizations and legally established communities in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Bank:

(a) each contract for goods estimated to cost the equivalent of \$300,000 or more;

(b) each contract for works estimated to cost the equivalent of \$2,000,000 or more;

(c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more;

(d) the first three contracts for goods and for works procured, irrespective of contract value, pursuant to the provisions of Section II, Parts A, B.1 and B.3 of this Schedule;

(e) the first three contracts for consultants services provided by firms, irrespective of value, and procured pursuant to the provisions of Section III, Part A and B.1 of this Schedule; and

(f) each contract procured pursuant to Section II, Part B.2 of this Schedule. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants

estimated to cost the equivalent of \$100,000 or more shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1) through (4) 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 the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means the amount of \$5,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
    - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the

Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

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