

**CONFORMED COPY**

**LOAN NUMBER 7106-CH**

# **Loan Agreement**

**(Life-Long Learning and Training Project)**

**between**

**REPUBLIC OF CHILE**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated June 20, 2002**

**LOAN NUMBER 7106-CH**

## **LOAN AGREEMENT**

AGREEMENT, dated June 20, 2002, between the REPUBLIC OF CHILE (the Borrower) and the 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 (the General Conditions) constitute an integral part of this Agreement.

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) “Adult Distance Education Institution” means a public or private school or other institution which delivers basic and/or secondary education to adults authorized to operate in the Borrower’s territory, and that meets the requirements of the Operational Manual to participate in Part A.3 (c) (i) of the Project;

(b) “Adult Distance Education Module Development Agreement” means any of the agreements referred to in Section 3.01 (i) of this Agreement;

(c) “Adult Distance Education Module Development Services” means the services provided by an Adult Distance Education Institution for the development of adult education modules through new education technologies (including distance education), which services are selected, approved and implemented in accordance with the requirements of the Operational Manual;

(d) “Adult Distance Training Institution” means a training institution, authorized to operate in the Borrower’s territory, that meets the requirements of the Operational Manual to participate in Part A.3 (d) (i) of the Project;

(e) “Adult Distance Training Module Development Agreement” means any of the agreements referred to in Section 3.01 (j) of this Agreement;

(f) “Adult Distance Training Module Development Services” means the services provided by an Adult Distance Training Institution for the development of adult training modules through new education technologies (including distance training), which services are selected,

approved and implemented in accordance with the requirements of the Operational Manual;

(g) “Adult Education Agreement” means any of the agreements referred to in Section 3.01 (d) of this Agreement;

(h) “Adult Education and Training Institution” means a private or public institution which integrates adult education with training authorized to operate in the Borrower’s territory, and meets the requirements of the Operational Manual to participate in Part A.3 (a) (i) of the Project;

(i) “Adult Education Institution” means a public or private school or other institution which delivers basic and/or secondary education to adults authorized to operate in the Borrower’s territory, and that meets the requirements of the Operational Manual to participate in Part A.1 (a) of the Project;

(j) “Adult Education Services” means the adult education services provided by an Adult Education Institution, which services are selected, approved and implemented in accordance with the requirements of the Operational Manual;

(k) “Education and Training Integration Agreement” means any of the agreements referred to in Section 3.01 (f) of this Agreement;

(l) “Education and Training Integration Services” means the services provided by an Adult Education and Training Institution for the integration of training and education curricular modules, which services are selected, approved and implemented in accordance with the requirements of the Operational Manual;

(m) “Education Assessment Agreement” means any of the agreements referred to in Section 3.01 (e) of this Agreement;

(n) “Education Assessment Institution” means an institution, authorized to operate in the Borrower’s territory, which delivers accreditation and certification services attesting to the education levels of adults, and that meets the requirements of the Operational Manual to participate in Part A.2 (a) of the Project;

(o) “Education Assessment Services” means the services provided by an Education Assessment Institution to assess, under Part A.2 (a) of the Project, the educational level of adults benefiting from Part A.1 (a) of the Project, which services are selected, approved and implemented in accordance with the requirements of the Operational Manual;

(p) “Education SEREMI” means *Secretaría Regional Ministerial*, a secretariat of MINEDUC operating at the regional level;

(q) “*Fundación Chile*” means the foundation established and registered on July 9,

1976 which was granted juridical personality pursuant to the Borrower's Decree Law No. 1528 of 1976, or any other institution acceptable to the Bank;

(r) “*Fundación Chile Agreement*” means the agreement referred to in Section 3.01 (m) of this Agreement;

(s) “MINEDUC” means *Ministerio de Educación*, the Borrower's Ministry of Education;

(t) “MINEDUC Component” means Parts A.1 (a), A.1 (b), A.2 (a), A.2 (b), A.3 (c), B.1, B.2, C.1 (b) and (c), C.2 (a) (ii) and (iii), C. 2 (b) (ii) and (iii), D.1, D.3 and D.4 of the Project;

(u) “Ministry of Labor and Social Security” means *Ministerio de Trabajo y Previsión Social*, the Borrower's Ministry of Labor and Social Security;

(v) “Model Adult Distance Education Module Development Agreement” means the model Adult Distance Education Module Development Agreement set forth in the Operational Manual;

(w) “Model Adult Distance Training Module Development Agreement” means the model Adult Distance Training Module Development Agreement set forth in the Operational Manual;

(x) “Model Adult Education Agreement” means the model Adult Education Agreement set forth in the Operational Manual;

(y) “Model Education and Training Integration Agreement” means the model Education and Training Integration Agreement set forth in the Operational Manual;

(z) “Model Education Assessment Agreement” means the model Education Assessment Agreement set forth in the Operational Manual;

(aa) “Model Small and Medium Size Enterprise Training Agreement” means the model Small and Medium Size Enterprise Training Agreement set forth in the Operational Manual;

(bb) “Model Teacher Technical Pre- and In-Service Training Agreement” means the model Teacher Technical Pre- and In-Service Training Agreement set forth in the Operational Manual;

(cc) “Model Technical and Professional Education Agreement” means the model

Technical and Professional Education Agreement set forth in the Operational Manual;

(dd) “Model Training Module Development Agreement”, means the model Training Module Development Agreement set forth in the Operational Manual;

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

(ff) “PCU” means the Project coordination unit referred to in Section 3.01 (b) (ii) of this Agreement;

(gg) “Performance Indicators” means the indicators set forth in a letter from the Borrower to the Bank dated January 31, 2002;

(hh) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(ii) “Regional Network Association” means an association established by: (i) entities providing technical secondary, and technical tertiary education and other higher education; (ii) employers; (iii) workers; and (iv) training institutions, with the objective of operating as a regional network, that meets the requirements of the Operational Manual to participate in Part B.1 (a) of the Project;

(jj) “Selected Sectors” means: (i) the following sectors of the Borrower’s economy: gas and electricity in the construction sector, mining, tourism, and information technology; and (ii) additional sectors selected in accordance with the eligibility criteria set forth in the Operational Manual;

(kk) “SENCE” means *Servicio Nacional de Capacitación y Empleo*, the Borrower’s national training and employment services institution linked to the Ministry of Labor and Social Security and established by the Borrower’s Law No. 19518 of 1997, as amended to the date of this Agreement;

(ll) “SENCE Component” means Parts A.3 (a), (b) and (d), C.1 (a) and (d), C.2 (a) (i) and (iv), C.2 (b) (i) and D.2 of the Project;

(mm) “SENCE Subsidiary Agreement” means the agreement referred to in Section 3.01 (c) of this Agreement;

(nn) “Services” means collectively the Adult Education Services, Education Assessment Services, Education and Training Integration Services, Adult Distance Education Module Development Services, Adult Distance Training Module Development Services, and Training Module Development Services;

(oo) “Small and Medium Size Enterprise” means a small or medium size enterprise established and operating in the Borrower’s territory that meets the requirements of the Operational Manual to participate in Part A.3 (b) (i) of the Project;

(pp) “Small and Medium Size Enterprise Training Agreement” means any of the agreements referred to in Section 3.01 (g) of this Agreement;

(qq) “Steering Policy Board” means the board referred to in Section 3.01 (b) (i) of this Agreement;

(rr) “Subprojects” means collectively the Technical and Professional Education Subprojects and Teacher Technical Pre- and In-Service Training Subprojects;

(ss) “Teacher Technical Pre- and In-service Training Agreement” means any of the agreements referred to in Section 3.01 (l) of this Agreement;

(tt) “Teacher Technical Pre- and In-service Training Institution” means a higher education institution which delivers pre- and in-service training to teachers that meets the requirements of the Operational Manual to participate in Part B.2 (a) of the Project;

(uu) “Teacher Technical Pre- and In-service Training Subproject” means a subproject proposed by a Teacher Technical Pre- and In-service Training Institution for pre- and in-service training of teachers in technical subjects, which subproject is selected, approved and implemented in accordance with the requirements of the Operational Manual;

(vv) “Technical and Professional Education Agreement” means any of the agreements referred to in Section 3.01 (k) of this Agreement;

(ww) “Technical and Professional Education Subproject” means a subproject proposed by a Regional Network Association for the vertical integration of secondary technical education with tertiary technical education through the technological curricular pathways referred to in Part B.1 (b) (i) of the Project, the alignment of technical secondary and tertiary education with the labor market demands in selected regions of the country, the validation by the Borrower’s education system of the skills acquired on the job and/or in the training institutions, and/or the improvement and expansion of tertiary technical education, which subproject is selected, approved and implemented in accordance with the requirements of the Operational Manual;

(xx) “Training Module Development Agreement” means any of the agreements referred to in Section 3.01 (h) of this Agreement; and

(yy) “Training Module Development Services” means the services proposed by a Training Institution for the development of training modules under Part A. 3 (b) (ii) of the Project, which services are selected, approved and implemented in accordance with the

requirements of the Operational Manual.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to SENCE in respect of the SENCE Component.

## **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 seventy five million seven hundred and fifty thousand dollars (\$75,750,000), 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. 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 services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be September 30, 2008 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. The Borrower agrees that 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 January 15 and July 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.

### **ARTICLE III**

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

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end shall, with the guidance of the Steering Policy Board:

- (i) carry out, through MINEDUC, Parts A.1 (a), A.1 (b), A.2 (a), A.2 (b), A.3 (c), B.1, B.2, C.1 (b) and (c), C.2 (a) (ii) and (iii), C.2 (b) (ii) and (iii), D.1, D.3 and D.4 of the Project; and
- (ii) cause SENCE to carry out Parts A.3 (a), (b) and (d), C.1 (a) and (d), C.2 (a) (i) and (iv), C.2 (b) (i) and D.2 of the Project;

all with due diligence and efficiency and in conformity with appropriate educational, technical,



administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall establish, and thereafter operate and maintain, during the implementation of the Project:

- (i) a policy guidance committee (the Steering Policy Board), with its executive council and advisory committee, all with functions and responsibilities satisfactory to the Bank; and
- (ii) in MINEDUC, a Project coordination unit for all Parts of the Project, with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by management, all in adequate numbers and with qualifications and experience acceptable to the Bank.

(c) The Borrower shall, through MINEDUC, make the proceeds of the Loan allocated for the SENCE Component available to SENCE under a subsidiary agreement to be entered into between the Borrower, through MINEDUC, and SENCE, under terms and conditions which shall have been approved by the Bank, which shall, *inter alia*, include SENCE's obligation to carry out the SENCE Component in accordance with the provisions of this Agreement.

(d) The Borrower shall, through MINEDUC, enter into an agreement with each Adult Education Institution under terms and conditions acceptable to the Bank, and substantially in accordance with the terms of the Model Adult Education Agreement, to set forth, in respect of Adult Education Services, *inter alia*:

- (i) the respective responsibilities of MINEDUC and the Education SEREMI, and the Adult Education Institution in the delivery of the Adult Education Services; and
- (ii) the terms for the payment of fees related to the services to be provided by the Adult Education Institution which shall consist of: (A) a 25% advance at the time the Adult Education Agreement is signed; and (B) the remainder as and when the Education Assessment Institution delivers to the Education SEREMI the list of enrolled adults covered by the Adult Education Services under Part A.1 (a) of the Project who have satisfactorily approved the training.

(e) The Borrower shall, through the MINEDUC, enter into an agreement with each Education Assessment Institution under terms substantially in accordance with the terms of the Model Education Assessment Agreement, to set forth, in respect of the Education Assessment Services, *inter alia*, the respective responsibilities of MINEDUC and the Education SEREMI, and the Education Assessment Institution in the delivery of the Education Assessment Services

under Part A.2 (a) of the Project.

(f) The Borrower shall cause SENCE to enter into an agreement with each Adult Education and Training Institution under terms substantially in accordance with the terms of the Model Education and Training Integration Agreement, to set forth, in respect of each set of Education and Training Integration Services, *inter alia*, the respective responsibilities of SENCE and the Adult Education and Training Institution in the delivery of Education and Training Integration Services under Part A.3 (a) (i) of the Project.

(g) The Borrower shall cause SENCE to enter into an agreement with each Small and Medium Size Enterprise or a group thereof, under terms substantially in accordance with the terms of the Model Small and Medium Size Enterprise Training Agreement, to set forth, *inter alia*, the respective responsibilities of SENCE and the Small and Medium Size Enterprises in the implementation of Part A.3 (b) (i) of the Project.

(h) The Borrower shall cause SENCE to enter into an agreement with each Training Institution under terms substantially in accordance with the terms of the Model Training Module Development Agreement, to set forth, in respect of each set of Training Module Development Services, *inter alia*, the respective responsibilities of SENCE and the Training Institution in the delivery of the Training Module Development Services under Part A.3 (b) (ii) of the Project.

(i) The Borrower shall, through MINEDUC, enter into an agreement with each Adult Distance Education Institution under terms substantially in accordance with the terms of the Model Adult Distance Education Module Development Agreement, to set forth, in respect of each set of Adult Distance Education Module Development Services, *inter alia*, the respective responsibilities of MINEDUC and the Adult Distance Education Institution in the delivery of the Adult Distance Education Module Development Services under Part A.3 (c) (i) of the Project.

(j) The Borrower shall cause SENCE to enter into an agreement with each Adult Distance Training Institution under terms substantially in accordance with the terms of the Model Adult Distance Training Module Development Agreement, to set forth, in respect of each set of Adult Distance Training Module Development Services, *inter alia*, the respective responsibilities of SENCE and the Adult Distance Training Institution in the delivery of the Adult Distance Training Module Development Services under Part A.3 (d) (i) of the Project.

(k) The Borrower shall, through MINEDUC, enter into an agreement with each Regional Network Association under terms substantially in accordance with the terms of the Model Technical and Professional Education Agreement, to set forth, in respect of each Technical and Professional Education Subproject, *inter alia*, the respective responsibilities of MINEDUC and the Regional Network Association in the implementation of the Technical and Professional Education Subproject under Part B.1 (a) of the Project.

(l) The Borrower shall, through MINEDUC, enter into an agreement with each Teacher Technical Pre- and In-Service Training Institution under terms substantially in accordance with the terms of the Model Teacher Technical Pre- and In-Service Training Agreement, to set forth, in respect of each Teacher Technical Pre- and In-Service Training

Subproject, *inter alia*, the respective responsibilities of MINEDUC and the Teacher Technical Pre- and In-Service Training Institution in the implementation of the Teacher Technical Pre- and In-Service Training Subproject under Part B.2 (a) of the Project.

(m) The Borrower shall cause SENCE to enter into an agreement with *Fundación Chile* under terms and conditions acceptable to the Bank, to set forth, *inter alia*, the respective responsibilities of SENCE and *Fundación Chile* in the implementation of Part C.1 (a) of the Project.

- (n) (i) The Borrower shall, through MINEDUC, exercise its rights and carry out its obligations under the SENCE Subsidiary Agreement and each Adult Education Agreement, Education Assessment Agreement, Adult Distance Education Module Development Agreement, Technical and Professional Education Agreement and Teacher Technical Pre- and In-Service Training 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 the SENCE Subsidiary Agreement or any Adult Education Agreement, Education Assessment Agreement, Adult Distance Education Module Development Agreement, Technical and Professional Education Agreement or Teacher Technical Pre- and In-Service Training Agreement, or any provision thereof; and
- (ii) The Borrower shall cause SENCE: (A) to exercise its rights and carry out its obligations under each Education and Training Integration Agreement, Adult Distance Training Module Development Agreement, Small and Medium Size Enterprise Training Agreement, Training Module Development Agreement and the *Fundación Chile* Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (B) except as the Bank shall otherwise agree, not to assign, abrogate, suspend, waive, terminate or fail to enforce any Education and Training Integration Agreement, Small and Medium Size Enterprise Training Agreement, Adult Distance Training Module Development Agreement, Training Module Development Agreement or the *Fundación Chile* Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the 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 4 to this Agreement.

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 and financial requirements thereof);

- (b) the functions and organization of the PCU and the Steering Policy Board;
- (c) a model agreement for contracting the services of Adult Education Institutions to obligate them to deliver the Adult Education Services;
- (d) a model agreement for contracting the services of Education Assessment Institutions to obligate them to deliver Education Assessment Services;
- (e) a model agreement for contracting with Adult Education Institutions to set forth their responsibilities in the delivery of Education and Training Integration Services;
- (f) a model agreement for contracting with the Small and Medium Size Enterprises to set forth their responsibilities in the implementation of Part A.3 (b) (i) of the Project;
- (g) a model agreement for contracting the services of Training Institutions to obligate them to deliver the Training Module Development Services;
- (h) a model agreement for contracting with Adult Distance Education Institutions to set forth their responsibilities in the delivery of the Adult Distance Education Module Development Services;
- (i) a model agreement for contracting with Adult Distance Training Institutions to set forth their responsibilities in the delivery of the Adult Distance Training Module Development Services;
- (j) a model agreement for contracting with Regional Network Associations to set forth their responsibilities in the implementation of Technical and Professional Education Subprojects;
- (k) a model agreement for contracting the services of Teacher Technical Pre- and In-service Training Institutions to set forth their responsibilities in the implementation of the Teacher Technical Pre- and In-service Training Subprojects; and
- (l) the procedures for the selection, approval, management, implementation and monitoring of Subprojects and Services, including those for the selection and award of Adult Education Institutions and Education Assessment Institutions.

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. (a) The Borrower shall, through MINEDUC in respect of the MINEDUC

Component, and SENCE in respect of the SENCE Component:

- (i) 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 their respective parts of the Project and the achievement of the objectives thereof;
- (ii) 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:
  - (A) setting forth the Project implementation plan for the following twelve months, and the budget allocation thereof; and
  - (B) integrating the results of the evaluation activities performed pursuant to paragraph (a) (i) of this Section, on the physical and financial 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 objectives thereof during the period following such date;
- (iii) review with the Bank:
  - (A) shortly after such reports' preparation, the reports referred to in paragraph (a) (ii) of this Section; and,
  - (B) not later than twenty four, forty-eight and seventy two months after the Effective Date, review with the Bank in addition to such reports, the effectiveness of the investments in each Part of the Project in achieving the objectives of the Project; and
- (iv) after each such review, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

(b) The Borrower shall, not later than forty-eight and seventy two months after the Effective Date, discuss with the Bank the appropriateness of consolidating the Steering Policy Board as a permanent institution.

Section 3.05. 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 MINEDUC, maintain a financial management system for all parts of the Project, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including as part of the information to be provided in each such report, a management letter concerning the Borrower's internal controls; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or 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.

Section 4.02. The Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter, a Project management report for such period, which:

(a) (i) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (ii) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(b) (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (ii) explains variances between the actual and previously forecast implementation targets; and

(c) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

## **ARTICLE V**

### **Remedies of the Bank**

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that SENCE shall have failed to perform any of its obligations under the SENCE Subsidiary Agreement.

## **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) the Borrower has issued a decree establishing the Steering Policy Board;
- (b) the Borrower has adopted the Operational Manual;
- (c) the Borrower has established the PCU, and employed the Project's coordinator, deputy coordinator, and planning and management unit chief, and at least two other technical unit chiefs;
- (d) the SENCE Subsidiary Agreement has been executed on behalf of the Borrower and SENCE; and
- (e) The Borrower shall have furnished to the Bank a plan, acceptable to the Bank, for the selection of the consultants to be employed during the first year of Project implementation.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the SENCE Subsidiary Agreement has been duly authorized or ratified by SENCE, and is legally binding upon SENCE in accordance with its terms.

Section 6.03. The date September 20, 2002 is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. 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 Buenos Aires, Argentina, as of the day and year first above written.

REPUBLIC OF CHILE

By /s/ Jorge Arrate

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Myrna Alexander

Acting Regional Vice President  
Latin America and the Caribbean

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

By: /s/ Jorge Arrate  
Authorized Representative

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

By: /s/ Jorge Arrate  
Authorized Representative

**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)	Consultants' services (other than those financed under Categories (2), (3), (4) or (5) of this table), services for dissemination campaigns, and study tours	16,000,000	90%
(2)	PCU Consultants' services	3,000,000	90%
(3)	Adult Education Services and Education Assessment Services	20,000,000	90% of the fees paid for services provided under the respective Adult Education Agreement and Education Assessment Agreement
(4)	Consultants' services for Parts A.3 (b) (i), A.3 (c) and (d), C.1 (a), (b), (c) and (d) and C.2 (a) of the Project	16,000,000	90%
(5)	Training under Parts A.2 (b) (iii), C.1 (a), C.2 (b) and D.2 of the Project	13,000,000	90%
(6)	Front end fee	757,500	Amount due under Section 2.04 of this Agreement
(7)	Unallocated	6,992,500	
(8)	Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
	<b>TOTAL</b>	<u>75,750,000</u>	

2. For the purposes of this Schedule, the term “Training” means expenditures incurred in connection with the provision of training under the Project, including the consultants’ services for the development and delivery of the modules, rental of equipment and facilities and reasonable travel cost and per-diem of the trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower for:

- (a) consultant firms under contracts costing less than \$100,000 equivalent;
- (b) individual consultants under contracts costing less than \$50,000 equivalent;
- (c) training; and
- (d) Adult Education Services and Education Assessment Services.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are: (a) to reduce the deficit in the provision of lifelong education and training opportunities for young adults and adults, especially those who are unemployed or living in conditions of poverty and those who seek a second chance to improve their employability and quality of life; and (b) to upgrade the skill level of the Borrower’s workforce to improve its productivity and competitiveness.

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: Adult Education

1. (a) Provision of basic and secondary education services to adults (Adult Education Services), including, *inter alia*:

- (i) the design of learning modules for such education; and
- (ii) the production and distribution of learning materials.

(b) Strengthening of MINEDUC's capacity to manage and monitor the implementation of Part A.1 (a) of the Project through:

- (i) the implementation of promotional and dissemination campaigns; and
- (ii) monitoring and evaluation of the Adult Education Services.

2. Improvement of the Borrower's systems to evaluate and certify the learning achievements of adults through:

(a) the application and processing of tests, by learning module and education level, to assess the learning achievements of adults benefiting from Part A.1 of the Project (Education Assessment Services); and

(b) the strengthening of MINEDUC's capacity to manage and monitor the implementation of Part A.2 (a) of the Project through:

- (i) the development and validation of instruments for the assessment of learning;
- (ii) the printing and distribution of testing instruments and certificates;
- (iii) the training of examiners;
- (iv) the statistical analysis of the results of the learning assessments under Part A. 2 (a) of the Project;
- (v) the implementation of promotional and dissemination campaigns;
- (vi) the issuance and public recording of certificates;
- (vii) the establishment of a system for safe keeping of learning assessment tests;
- (viii) the implementation of diagnostic and impact evaluation studies;
- (ix) the provision of technical assistance to the Adult Education Assessment Institutions to strengthen their evaluation capacity; and
- (x) the supervision and monitoring of the Education Assessment Institutions in the delivery of their services.

3. Improvement of the Borrower's integration of two learning modalities, namely basic and secondary education for adults on the one hand, and technical/vocational training on the other hand, through:

- (a) (i) the development and implementation of specific activities for the integration of such adult education and training (the Education and Training Integration Services); and
- (ii) the strengthening of SENCE's capacity to manage and monitor the implementation of Part A.3 (a) (i) of the Project through:
  - (A) the implementation of dissemination programs; and
  - (B) the carrying out of diagnostic and impact evaluation studies of the Education and Training Integration Services;
- (b) (i) the provision of technical assistance to Small and Medium Size Enterprises wishing to acquire pertinent adult education and training modules for their adult workforce;
- (ii) the development of training modules aligned to the demands of Small and Medium Size Enterprises (Training Module Development Services); and
- (iii) the carrying out of impact evaluation studies of Parts A.3 (b) (i) and (ii) of the Project;
- (c) (i) the carrying out of activities for the development of basic and secondary education modules for adults through new education technologies, including distance education (Adult Distance Education Module Development Services); and
- (ii) the carrying out of impact evaluation studies of Part A.3 (c) (i) of the Project; and
- (d) (i) the carrying out of activities for the development of training modules for adults through new training technologies, including distance training (Adult Distance Training Module Development Services); and
- (ii) the carrying out of impact evaluation studies of Part A.3 (d) (i) of the Project.

Part B: Technical and Professional Education

1. (a) Carrying out of activities for the vertical integration of secondary technical education with tertiary technical professional education, the alignment of technical secondary and tertiary education with the labor market demands in selected regions of the Borrower's territory, the validation by the Borrower's education system of the skills acquired by adults on-the-job and in training institutions, and the improvement and expansion of tertiary technical education (the Technical and Professional Education Subprojects), including, *inter alia*:

- (i) the provision of technical assistance and training for:
  - (A) the preparation and implementation of specific integration, alignment, validation, improvement and/or expansion activities; and
  - (B) the establishment of training courses designed to provide the skills needed for an equal starting base for incoming students seeking tertiary education; and
- (ii) the provision of learning equipment and materials for the Regional Network Associations.

(b) Strengthening of MINEDUC's capacity to manage and monitor the implementation of Part B.1 (a) of the Project through:

- (i) development of technological curricular pathways in Selected Sectors consisting of a string of required curricular modules mapping the pedagogical progression from grade 11 of the technical secondary education to tertiary technical-professional education;
- (ii) dissemination campaigns, and workshops and seminars; and
- (iii) monitoring and evaluation studies on the Technical and Professional Education Subprojects.

2. (a) Carrying out of activities for the improvement of pre- and in-service training of teachers for technical-professional education (the Teacher Technical Pre- and In- Service Training Subprojects), including, *inter alia*:

- (i) the development of modularized curricula for pre- and in-service teacher training institutions; and
- (ii) the training of teachers trainers in Teacher Technical Pre- and In-Service

### Training Institutions.

(b) Strengthening of MINEDUC's capacity to manage and monitor the implementation of Part B.2 (a) of the Project through:

- (i) the setting of graduation standards for students completing their pre- and in-service teacher training in the area of technical-professional education;
- (ii) the provision of technical assistance to the Teacher Technical Pre-and In-Service Training Institutions to strengthen their capacity to prepare and implement the Teacher Technical Pre-and In-Service Training Subprojects; and
- (iii) the implementation of workshops and seminars; dissemination campaigns; and impact evaluation studies.

### Part C: Competency Framework and Management Information Systems

1. (a) Establishment of a national system of competency frameworks for Selected Sectors including, *inter alia*:

- (i) the refining of existing, and the development of new, frameworks for the different competencies required for employment in Selected Sectors;
- (ii) the development of new capabilities among local training providers to stimulate and maintain demand for competency-based training programs;
- (iii) the certification of different users, in particular self employed workers and workers of small-medium and micro enterprises;
- (iv) the implementation of the institutional arrangements required for assessing and certifying labor and employability competencies under a fully recognized and legitimate national competency framework;
- (v) the development, production and dissemination of training and assessment materials;
- (vi) the assessment and certification of skills of employees and technical staff in the Selected Sectors;
- (vii) the provision of technical assistance and training, (including workshops, seminars, and study tours) to learn about other related experiences



worldwide, and the carrying out of dissemination campaigns for the new certification program; and

(viii) the carrying out of monitoring and impact evaluation studies.

(b) the development of vocational professional pathways consisting of a string of general (broad occupational standards) and sector-specific skills and competencies mapping the career path from the level of unskilled worker to qualified technician and professional;

(c) the development and implementation of a system to monitor the quality and pertinence of the services provided by technical secondary schools; and

(d) the development and implementation of a system to monitor the quality and pertinence of the services provided by training institutions.

2. (a) The establishment and/or strengthening of four management information systems as follows:

(i) for labor intermediation to indicate job vacancies and available relevant training programs at a regional level;

(ii) for vocational orientation to provide guidance to students from secondary education to pursue further education or seek insertion in the labor market;

(iii) the provision of information on the services delivered by the Project; and

(iv) the provision of information on findings of labor market studies and other related research including the development of specific websites.

(b) Provision of training and technical support to:

(i) personnel of private and municipal employment information offices operating the systems referred to in Part C.2 (a) (i) of the Project;

(ii) about 1400 vocational orientation counselors operating the system referred to in Part C.2 (a) (ii) of the Project in municipal and private subsidized secondary schools; and

(iii) personnel operating the systems referred to in Part C.2 (a) (iii) of the Project.

Part D: Institutional Strengthening

1. Establishment and operation of the PCU.
2. Strengthening of the national and regional offices of SENCE through the provision of technical assistance, training and equipment.
3. Implementation of dissemination campaigns for the Project.
4. Carrying out of evaluation, implementation and impact studies on the Project.

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The Project is expected to be completed by March 31, 2008.

**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>
On each January 15 and July 15	
Beginning January 15, 2010 through July 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 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 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. Employment of Consultants

##### Part A: General

Consultants' services shall be procured in accordance with the provisions of the

Introduction and Section IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of this Section and Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for seminars, studies, workshops and training estimated to cost less than \$100,000 equivalent per contract and not exceeding in the aggregate \$34,310,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants’ Qualifications

Services:

(a) for the operation of information systems, institutional strengthening and studies approved by the Bank, estimated to cost less than \$100,000 equivalent per contract, and not exceeding in the aggregate \$6,480,000 equivalent; and

(b) for Adult Education Services and Education Assessment Services which are estimated to cost less than \$20,000 equivalent per contract, and not exceeding in the aggregate \$360,000 equivalent per Adult Education Institution or Education Assessment Institution,

may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding in the aggregate \$7,770,000 equivalent, shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$30,000 or more, but less than the equivalent of \$100,000, terms of reference shall be furnished to the Bank for its review and approval. The contract shall be awarded only after said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(e) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$20,000 or more, but less than the equivalent of \$50,000, terms of reference shall be furnished to the Bank for its review and approval. The contract shall

be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section II. Special Provisions

In addition and without limitation or restriction to any other provisions set forth in this Schedule or the Consultant Guidelines, the following provisions shall govern all employment of consultants:

1. Consulting firms shall be selected on the basis of short-lists and not subject to an open competition selection process.
2. The evaluation process and the related documents shall be kept confidential until the contract is awarded.

