

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
COUNTRY MANAGEMENT UNIT
ARGENTINA, CHILE, PARAGUAY & URUGUAY

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November 6, 2009

CONFORMED COPY FOR PUBLIC DISCLOSURE

Mr. Andrés Velasco
Minister of Finance
Ministry of Finance
Teatinos 120
Santiago, Republic of Chile

**Re: REPUBLIC OF CHILE: Loan 7316-CH
(Santiago Urban Transport Technical Assistance Project)
Amendment to the Loan Agreement**

Dear Minister,

Please refer to the Loan Agreement for the above-captioned Project between the Republic of Chile (the Borrower) and the International Bank for Reconstruction and Development (the Bank), dated August 19, 2005, (the Loan Agreement), and the letter from your Ministry dated June 3, 2009 requesting an amendment to the Loan Agreement.

The Bank agrees with your request, and proposes to amend the Loan Agreement as follows:

1. Section 1.02 is amended as follows:

(a) Paragraphs (b), (e), (g), (h) and (s) are deleted.

(b) Paragraph (n) is amended to read as follows:

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

(c) New Paragraphs (w) through (bb) are added to read as follows:

(w) “Pilot” means an activity covered by Part B.3 (b), (c) and (d) of the Project and approved by the Bank;

(x) “Environmental Guidelines” means guidelines, satisfactory to the Bank, describing the types of works to be carried out under the Pilots, the screening requirements for works, the potential environmental impacts, the applicable environmental framework and norms, the mitigation measures, the institutional responsibilities for implementation of those guidelines, the definition of direct economic and social impacts from resettlement in accordance with Bank

safeguards policies and a checklist for environmental screening including, inter alia, screening criteria for potential physical or economic displacement;

(y) “*Chilecompra*” means the electronic procurement system set forth in the Borrower’s Law No. 19886 of August 29, 2003, published in the Borrower’s Official Gazette, dated July 30, 2003 and its regulations set forth in Supreme Decree No. 250 of September 24, 2004;

(z) “*Convenio Marco*” means the bidding procedure set forth in *Chilecompra* whereby the goods that could be purchased from qualified providers, selected in open competition by the Borrower’s Purchasing Directorate, are listed in a catalogue with the authorized terms and conditions (including prices) of such goods for purchases by any of the Borrower’s agencies;

(aa) “Municipality” means any of the Municipalities in Metropolitan Santiago; and

(bb) “Anti Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.

2. Section 3.01 (a), paragraphs (i) and (ii) are deleted in their entirety and replaced by the following:

- “(i) all parts of the Project other than Parts A.1, B.3 (c), D.1 and D.2, through Transantiago-SE;
- (ii) Parts A.1 and D.1 through Transantiago-SE with the assistance of SECTRA;
- (iii) Part B.3 (c) through Transantiago-SE and, when applicable, “with the assistance of the relevant Municipalities and/or MTT, and
- (iv) Part D.2 through Transantiago-SE with the assistance of SEREMITT-RM;”

3. Section 3.01 (b) is deleted and replaced by the following:

“(b) The Borrower shall, through the Committee of Ministers, during the implementation of the Project:

- (i) maintain a Project coordination unit (PCU) in Transantiago-SE, with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank; and
- (ii) without limitation to the provisions of paragraph (i) above, employ, no later than three (3) months after the effectiveness of the Amendment Letter dated November 6, 2009, a procurement specialist, with qualifications and experience acceptable to the Bank.

4. Section 3.04:

(a) Paragraphs (e) and (f) are redesignated (g) and (h) and the following new paragraphs (e) and (f) are added to read:

“(e) the requirements for implementation of Pilots, including the Environmental Guidelines when issued;

(f) the Performance Indicators;”

5. Section 3.05 is deleted and the remaining Sections redesignated as Sections 3.05 and 3.06.

6. New Sections 3.07 and 3.08 are added to read as follows:

“Section 3.07. The Borrower shall prior to the implementation of a Pilot:

(a) unless otherwise agreed by the Bank, enter into an agreement, satisfactory to the Bank, when applicable, with the Municipality in which the Pilot is to be implemented and/or with MTT setting forth the respective obligations in the implementation of the Pilot;

(b) in the event the implementation of a Pilot requires the contracting of works, enter into an agreement with a procurement agent, satisfactory to the Bank, under terms and conditions satisfactory to the Bank; and

(c) not amend, fail to enforce or waive any of the agreements referred to in (a) and (b) above, or any of their provisions.”

“Section 3.08. The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines”.

7. Schedule 1:

(a) The table in paragraph 1 is deleted and replaced by the table in the Annex to this Amendment Letter.

(b) Paragraph 2 (b) is deleted and replaced to read as follows:

“(b) the term “Training” means expenditures incurred in connection with overseas, local and on-the-job training, study tours, seminars and workshops including training materials and rental of training facilities, as well as fees, travel, and per diem of trainers, training institutions and trainees.

(c) A new paragraph 2 (c) is added to read as follows:

“(c) the term “Non-Consultant Services” means technical services, including but not limited to, painting of road infrastructure, carrying out traffic or passenger counts, installing equipment, carrying out surveys, and organizing events.”

(d) Paragraph 3 (a): the period at the end of the paragraph is deleted and replaced by:

“; and

(b) goods, works and services for the implementation of Pilots under Part 3 (c) of the Project unless:

- (i) the Bank shall have approved the respective Pilot design;
- (ii) any agreement with a Municipality or Municipalities and/or MTT as may be required under Section 3.07 (a) of the Loan Agreement has been signed in form and substance satisfactory to the Bank; and
- (iii) if works are included in the Pilot:
 - (A) the Environmental Guidelines applicable to the Pilots shall have been approved by the Bank; and
 - (B) the agreement with the procurement agent referred to in Section 3.07 (b) of the Loan Agreement has been signed in form and substance satisfactory to the Bank.”

(e) Paragraph 4 is deleted in its entirety and replaced by a new paragraph to read as follows:

“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 costing less than \$300,000 equivalent per contract;
- (b) works costing less than \$500,000 equivalent per contract;
- (c) Non-Consultant Services costing less than \$100,000 equivalent per contract;
- (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract;
- (e) services of individual consultants under contracts costing less than \$50,000 equivalent per contract;
- (f) Operating Costs and Training; and
- (g) Pilots,

all under such terms and conditions as the Bank shall specify by notice to the Borrower.”

8. Schedule 2:

(a) Parts A through G are deleted and replaced by new Parts A through F to read as follows:

Part A: General Urban Transport

1. Carrying out an analysis and updating of the socio-economic ESTRAUS sub-models and developing a sub-model to forecast the income, motorization rate and size of households in Metropolitan Santiago.
2. Designing of the institutional framework for Transantiago.

Part B: Public Transport

1. Carrying out of evaluations of Transantiago's performance and identification of measures to improve the public transport system.
2. Improving Transantiago's financial and fare management system through background studies and the design and implementation of the new system.
3. Improving the quality and/or efficiency of public transport in Metropolitan Santiago by:

(a) identifying international experiences through consulting services, study tours and/or training for public transport stakeholders in Metropolitan Santiago;

(b) designing, from the experiences of 3 (a) above, activities to be carried out in Metropolitan Santiago, relating to areas such as improvements to passenger information, public transport service quality, user perception and satisfaction, universal access and non-motorized transport, planning, management and control of public transport operations, integrated transport and land-use planning, public transport infrastructure planning, implementation and management, public transport environmental management, and traffic management and engineering (the Pilots);

(c) implementing the Pilots; and

(d) evaluating the Pilots.

Part C: Environment

Monitoring of Transantiago's impact on Santiago's air quality.

Part D: Land Use

1. Updating the MUSSA based on results of the 2001 Origin- Destination Survey and the 2002 population and housing census, and carrying out a social assessment of three congestion pricing alternatives in the framework of Transantiago.
2. Carrying out of a study to:

- (a) update the graphic information system of the SIVU, and
- (b) identify the needed revisions to the legal framework to allow application of SEISTU, and functioning of the one-stop process of SIVU, as means to mainstream procedures.

Part E: Social Aspects of Transport

Assessment of the impact of Transantiago on street market vendors and preparation of a social mitigation program for the benefit of such vendors.

Part F: Project Management

Strengthening the PCU to carry out its obligations under the Project (including its financial and procurement responsibilities) through the provision of technical assistance, training, operating cost financing (as necessary) and equipment, as well as through the carrying out of Project audits.”

9. The date in the last line of the Project Description is deleted and replaced by “June 30, 2011”.

10. Schedule 4

The following paragraphs are deleted and replaced to read as follows:

(a) Section I. Paragraphs A and B are deleted and replaced by new paragraphs A and B to read as follows:

“A. All goods, Non-Consultant Services and works shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 and revised in October 2006 (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 and revised in October 2006 (the Consultant Guidelines), and with the provisions of this Schedule.”

(b) Section II:

(i) The heading is deleted and replaced by a new heading to read as follows:

“Particular Methods of Procurement of Goods, Non-Consultant Services and Works”

(ii) Paragraph B.1 is deleted and replaced by a new paragraph to read as follows:

“1. National Competitive Bidding. Goods and Non-Consultant Services estimated to cost less than \$350,000 equivalent per

contract and works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.”

- (iii) Paragraph B.2 is deleted and replaced by a new paragraph to read as follows:

“2. Shopping. Goods and Non-Consultant Services estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$350,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

- (c) Section V.:

- (i) Part A is deleted and replaced by the following :

“In addition and without limitation or restriction to any other provisions set forth in this Schedule or the Procurement Guidelines, the following provision shall govern all procurement of goods and Non-Consultant Services:

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

- (ii) Part B is deleted and replaced by the following:

“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:

For consultant services for contracts estimated to cost below \$50,000 equivalent the procedures of Chilecompra may be followed as a form, acceptable to the Bank, of Single Source Selection without the Bank’s prior approval.”

11. Schedule 5:

- (a) Paragraph 1 (a):

The words “Categories (1) through (3)” are deleted and replaced by “Categories (7) and (8)”, in the first line.

- (b) Paragraph 1 (b):

The word “works” is added after the word “goods” in the second line.

- (c) Paragraph 1 (c) has been deleted and replaced by a new paragraph (c) which reads as follows”

“(c) the term “Authorized Allocation” means the amount of \$500,000 to be increased, if and when the agreement with the procurement agent referred to in

Section 3.07 (b) of the Loan Agreement has been signed, to the amount of \$800,000, and to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.”

Please be advised that the Bank has established December 31, 2011 as the later date for purposes of Section 2.03 of the Loan Agreement.

This amendment will be effective upon receipt by the Bank of:

- (a) one fully executed original of this Amendment Letter;
- (b) evidence in form and substance satisfactory to the Bank that the Operational Manual has been modified as needed for consistency with the provisions of this Amendment Letter; and
- (c) a legal opinion to be furnished by the Borrower to the Bank showing on behalf of the Borrower that this Agreement has been duly authorized and ratified by, and executed and delivered on behalf of, the Borrower, and is legally binding upon the Borrower in accordance with its terms.

A revised Loan Agreement consolidating all the changes is attached for reference.

Please confirm your agreement with the foregoing amendment by signing and dating two originals of this Amendment Letter. Upon your confirmation, please return one fully executed original to us. The date of this Amendment Letter shall be deemed that of the latest of your countersignatures; nonetheless, the provisions set forth herein shall be applied retroactively as of June 30, 2009.

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

By /s/ Pedro Alba
Director
Country Management Unit
Argentina, Chile, Paraguay and Uruguay

AGREED:

REPUBLIC OF CHILE

By /s/ Andrés Velasco

Authorized Representative

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

By: /s/ Pamela Guzman
Authorized Representative

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

By: /s/ Ramiro Mendoza Zúñiga
Authorized Representative

Date: May 11, 2010

Table of Paragraph 1 of Schedule 1

	<u>Category</u>	<u>Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1)	Goods and Non-Consultant Services	0	100%
(2)	Consultants' services:		
	(a) Parts A through F	0	100%
	(b) Part G	0	100%
(3)	Operating Costs	0	100%
(4)	Unallocated	0	
(5)	Front end fee	12,000	Amount due under Section 2.04 of this Agreement
(6)	Premia for Interest Rate Cap and Interest Rate Collar	0	Amount due under Section 2.09 (c) of this Agreement
(7)	Goods, Consultant services, Non-Consultant Services, Training and Operating Costs for all parts of the Project other than Part B.3(c) thereof	3,638,000	100%
(8)	Works, Goods, Consultant and Non-Consultant Services for Part B.3(c) of the Project	1,150,000	100%
	TOTAL	<u>4,800,000</u>	

**ATTACHMENT
CONFORMED COPY**

LOAN NUMBER 7316-CH

Loan Agreement

(Santiago Urban Transport Technical Assistance Project)

between

REPUBLIC OF CHILE

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 19, 2005 (as amended through November 6, 2009)

LOAN NUMBER 7316-CH

LOAN AGREEMENT

AGREEMENT, dated August 19, 2005, between REPUBLIC OF CHILE (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower is implementing a comprehensive plan for the improvement of urban transport in Metropolitan Santiago, as defined hereafter, and 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 modifications set forth below, (the General Conditions) constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."; and

- (b) 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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Committee of Ministers” means *Comité de Ministros para el Transporte Urbano de Santiago*, the committee established pursuant to the Borrower’s Presidential Order No. 001, dated April 7, 2003, and composed of the Borrower’s Minister of Transport and Telecommunications, the Minister of Public Works, the Minister of Housing and Urban Development, the Minister of Finance, the Executive Director of CONAMA, the Undersecretary of Transport, the *Intendente* of the Metropolitan Region, the Executive Secretary of SECTRA, the Coordinator of Concessions of the Ministry of Public Works and the SEREMITT-RM. The Executive Secretary of this Committee is Transantiago-SE;

(b) [deleted and intentionally left blank];

(c) “ESTRAUS” means “*Modelo de Equilibrio Oferta-Demanda para Redes Multimodales de Transporte Urbano con Múltiples Clases de Usuario*”, the locally developed transport demand forecast model;

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

(e) [deleted and intentionally left blank];

(f) “Metropolitan Santiago” means the area covering the Borrower’s province of Santiago and the territory under the jurisdiction of the Borrower’s municipalities of Puente Alto and San Bernardo;

(g) [deleted and intentionally left blank];

(h) [deleted and intentionally left blank];

(i) “MTT” means *Ministerio de Transportes y Telecomunicaciones*, the Borrower’s Ministry of Transport and Telecommunications;

(j) “MUSSA” means “*Modelo de Uso de Suelo de Santiago*”, the locally developed model to forecast and evaluate interactions between land-use and transport policies;

(k) “Operational Manual” means the manual referred to in Section 3.04 of this Agreement;

(l) “Origin-Destination Survey” means the 2001 household survey carried out to know the trip patterns of the inhabitants of the Metropolitan Area of Santiago;

(m) “PCU” means the Project coordinating unit referred to in Section 3.01 (b) of this Agreement;

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

(o) “Procurement Plan” means the Borrower’s procurement plan, dated April 22, 2005, covering the initial 18 month period (or longer) 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;

(p) “SECTRA” means *Secretaría Interministerial de Planificación de Transporte*, the Borrower’s inter-ministerial transport planning agency;

(q) “SEISTU” means *Sistema de Evaluación de Impactos sobre el Sistema de Transporte Urbano* (Impact Evaluation System for Urban Transport), a system aimed at assuring that the baseline data regarding the Metropolitan Santiago transport system is maintained;

(r) “SEREMITT-RM” means *Secretaría Regional del Ministerio de Transportes y Telecomunicaciones - Región Metropolitana*, the Borrower’s regional offices of MTT;

(s) [deleted and intentionally left blank];

(t) “SIVU” means *Sistema de Información de la Ventanilla Única*, the information system for the “Single Window” function;

(u) “Transantiago–SE” means *Secretaría Ejecutiva del Comité de Ministros para el Transporte Urbano de la Ciudad de Santiago*, the Executive Secretariat of the Committee of Ministers for Urban Transport for Metropolitan Santiago;

(v) “Transantiago” means *Plan de Transporte Urbano para Santiago*, the Borrower’s plan for the improvement of urban transport in Metropolitan Santiago;

(w) “Pilot” means an activity covered by Part B.3 (b), (c) and (d) of the Project and approved by the Bank;

(x) “Environmental Guidelines” means guidelines, satisfactory to the Bank, describing the types of works to be carried out under the Pilots, the screening requirements for works, the potential environmental impacts, the applicable environmental framework and norms, the mitigation measures, the institutional responsibilities for implementation of those guidelines, the definition of direct economic and social impacts from resettlement in accordance with Bank safeguards policies and a checklist for environmental screening including, inter alia, screening criteria for potential physical or economic displacement;

(y) “*Chilecompra*” means the electronic procurement system set forth in the Borrower’s Law No. 19886 of August 29, 2003, published in the Borrower’s Official Gazette, dated July 30, 2003 and its regulations set forth in Supreme Decree No. 250 of September 24, 2004;

(z) “*Convenio Marco*” means the bidding procedure set forth in *Chilecompra* whereby the goods that could be purchased from qualified providers, selected in open competition by the Borrower’s Purchasing Directorate, are listed in a catalogue with the authorized terms and conditions (including prices) of such goods for purchases by any of the Borrower’s agencies;

(aa) “Municipality” means any of the Municipalities in Metropolitan Santiago; and

(bb) “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.

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 four million eight hundred thousand Dollars (\$4,800,000), 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 and 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 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, through the Treasury (*Tesorería General de la República*) may, for the purposes of the Project open and maintain in Dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Bank. 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 December 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. (a) 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 April 15 and October 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 objective of the Project, and, to this end, shall carry out:

- (i) all parts of the Project other than Parts A.1, B.3 (c), D.1 and D.2, through Transantiago-SE;
- (ii) Parts A.1 and D.1 through Transantiago-SE with the assistance of SECTRA;
- (iii) Part B.3 (c) through Transantiago-SE and, when applicable, “with the assistance of the relevant Municipalities and/or MTT; and

- (iv) Part D.2 through Transantiago-SE with the assistance of SEREMITT-RM,

all with due diligence and efficiency and in conformity with appropriate economic, administrative, financial, transport, social and environmental standards and practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall, through the Committee of Ministers, during the implementation of the Project:

- (i) maintain a Project coordination unit (PCU) in Transantiago-SE, with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank; and
- (ii) without limitation to the provisions of paragraph (i) above, employ, no later than three (3) months after the effectiveness of the Amendment Letter dated November 6, 2009, a procurement specialist, with qualifications and experience acceptable to the Bank.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 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.

Section 3.03. The Borrower shall cause Transantiago-SE to:

(a) 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 objectives thereof;

(b) 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 objectives thereof during the period following such date; and

- (c) (i) 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, 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.

Section 3.04. 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 disbursement requirements thereof);
- (b) the PCU staffing plan;
- (c) for each of the studies under the Project, the composition of the technical committees charged with, *inter alia*, defining and approving the bidding documents, evaluating the proposal and selecting the winners and supervising or monitoring the subsequent studies performed under the Project;
- (d) The terms of reference to prepare a single audit opinion;
- (e) The requirements for implementation of Pilots, including the Environmental Guidelines when issued;
- (f) The Performance Indicators;
- (g) The chart of accounts approved by the Bank; and
- (h) The FMR format approved by the Bank.

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 3.05. 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 designed to ensure the sustainability of the Project; and
- (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.06. Within sixty days from the date of this Agreement, the Project Implementation Unit in Transantiago-SE shall be fully staffed. In addition, Transantiago-SE shall have contracted the temporary services of a Bank procurement guidelines' specialist to assist in the preparation of the letter of invitation, packages and bid documents required, under terms of reference and criteria for selection acceptable to the Bank.

Section 3.07. The Borrower shall prior to the implementation of a Pilot:

- (a) unless otherwise agreed by the Bank, enter into an agreement, satisfactory to the Bank, when applicable, with the Municipality in which the Pilot is to be

implemented and/or with MTT setting forth the respective obligations in the implementation of the Pilot;

- (b) in the event the implementation of a Pilot requires the contracting of works, enter into an agreement with a procurement agent, satisfactory to the Bank, under terms and conditions satisfactory to the Bank; and
- (c) not amend, fail to enforce or waive any of the agreements referred to in (a) and (b) above, or any of their provisions.

Section 3.08 The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-corruption Guidelines.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through Transantiago-SE, shall 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:
 - (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:

- (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 (or other period agreed to by the Bank), 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 3.03 of this Agreement, the Borrower, through Transantiago-SE, shall 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

Effective Date; Termination

Section 5.01. 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 adopted the Operational Manual; and
- (b) the resettlement policy framework providing how potential resettlement under Transantiago would be carried out has been finalized in a manner acceptable to the Bank.

Section 5.02. The date November 17, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Teatinos 120 , piso 12
Santiago, Chile

Facsimile: (56-2) 698-8903

Copy to:

Transantiago – SE Secretaría Ejecutiva
Nueva York 9, piso 10
Santiago, Chile

Facsimile: (56 2) 428 79 26

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/ Nicolás 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 Maldonado
Authorized Representative

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

By: /s/ Gastón Astorquiza Altoner
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>Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1)	Goods and Non-Consultant Services	0	100%
(2)	Consultants' services:		
	(a) Parts A through F	0	100%
	(b) Part G	0	100%
(3)	Operating Costs	0	100%
(4)	Unallocated	0	
(5)	Front end fee	12,000	Amount due under Section 2.04 of this Agreement
(6)	Premia for Interest Rate Cap and Interest Rate Collar	0	Amount due under Section 2.09 (c) of this Agreement
(7)	Goods, Consultant services, Non-Consultant Services, Training and Operating Costs for all parts of the Project other than Part B.3(c) thereof	3,638,000	100%
(8)	Works, Goods, Consultant and Non-Consultant Services for Part B.3(c) of the Project	1,150,000	100%
	TOTAL	<u>4,800,000</u>	

2. For the purposes of this Schedule:

(a) the term “Operating Costs” means reasonable incremental costs, which would not have been incurred absent the Project, for: (i) office equipment and related maintenance of the Borrower; (ii) refurbishment of office space, office utilities and office supplies of the Borrower; and (iii) travel and per diem of personnel of the Borrower for Project implementation activities;

(b) the term “Training” means expenditures incurred in connection with overseas, local and on-the-job training, study tours, seminars and workshops including training materials and rental of training facilities; and fees, travel, and per diem of trainers, training institutions and trainees; and

(c) the term “Non-Consultant Services” means technical services including, but not limited to, painting of road infrastructure, carrying out traffic or passenger counts, installing equipment, carrying out surveys, and organizing events.

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 \$600,000, may be made on account of payments made for expenditures before that date but after March 11, 2005; and

(b) goods, works and services for the implementation of Pilots under Part 3 (c) of the Project unless:

(i) the Bank shall have approved the respective Pilot design;

(ii) any agreement with a Municipality or Municipalities and/or MTT as may be required under Section 3.07 (a) of the Loan Agreement has been signed in form and substance satisfactory to the Bank; and

(iii) if works are included in the Pilot:

(A) the Environmental Guidelines applicable to the Pilots shall have been approved by the Bank; and

(B) the agreement with the procurement agent referred to in Section 3.07 (b) of the Loan Agreement has been signed in form and substance satisfactory to the Bank.

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 costing less than \$300,000 equivalent per contract;

(b) works costing less than \$500,000 equivalent per contract;

(c) Non-Consultant Services costing less than \$100,000 equivalent per contract;

(d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract;

(e) services of individual consultants under contracts costing less than \$50,000 equivalent per contract;

(f) Operating Costs and Training; and

(g) Pilots,

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 support the Borrower in achieving an efficient and sustainable urban transport system for Metropolitan Santiago.

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 objective:

“Part A: General Urban Transport

1. Carrying out an analysis and updating of the socio-economic ESTRAUS sub-models and developing a sub-model to forecast the income, motorization rate and size of households in Metropolitan Santiago.

2. Designing of the institutional framework for Transantiago.

Part B: Public Transport

1. Carrying out of evaluations of Transantiago’s performance and identification of measures to improve the public transport system.

2. Improving Transantiago’s financial and fare management system through background studies and the design and implementation of the new system.

3. Improving the quality and/or efficiency of public transport in Metropolitan Santiago by:

(a) identifying international experiences through consulting services, study tours and/or training for public transport stakeholders in Metropolitan Santiago;

(b) designing, from the experiences of 3 (a) above, activities to be carried out in Metropolitan Santiago relating to areas such as improvements to passenger information, public transport service quality, user perception and satisfaction, universal access and non-motorized transport, planning, management and control of public transport operations, integrated transport and land-use planning, public transport infrastructure planning, implementation and management, public transport environmental management, and traffic management and engineering (the Pilots);

(c) implementing the Pilots; and

(d) evaluating the Pilots.

Part C: Environment

Monitoring of Transantiago’s impact on Santiago’s air quality.

Part D: Land Use

1. Updating the MUSSA based on results of the 2001 Origin-Destination Survey and the 2002 population and housing census, and carrying out a social assessment of three congestion pricing alternatives in the framework of Transantiago.

2. Carrying out of a study to:

(a) update the graphic information system of the SIVU, and

(b) identify the needed revisions to the legal framework to allow application of SEISTU, and functioning of the one-stop process of SIVU, as means to mainstream procedures.

Part E: Social Aspects of Transport

Assessment of the impact of Transantiago on street market vendors and preparation of a social mitigation program for the benefit of such vendors.

Part F: Project Management

Strengthening the PCU to carry out its obligations under the Project (including its financial and procurement responsibilities) through the provision of technical assistance, training, operating cost financing (as necessary) and equipment, as well as through the carrying out of Project audits.

* * *

The Project is expected to be completed by June 30, 2011.

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 October 15 and April 15 beginning October 15, 2010 through April 15, 2020	5%

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: (a) 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 (b) 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, Non-Consultant Services and works shall be procured in accordance with the provisions of Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” dated May 2004 and revised in October 2006 (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 and revised in October 2006 (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, Non-Consultant Services and Works

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower .

B. Other Procurement Procedures

1. National Competitive Bidding. Goods and Non-Consultant Services estimated to cost less than \$350,000 equivalent per contract and works estimated to cost less than \$5,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods and Non-Consultant Services estimated to cost less than \$100,000 equivalent per contract and works estimated to cost less than \$350,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and Non-Consultant Services which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

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. 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 Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.
2. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.
3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 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.
4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.
5. 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

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

Section V. Special Provisions

Part A:

In addition and without limitation or restriction to any other provisions set forth in this Schedule or the Procurement Guidelines, the following provision shall govern all procurement of goods and Non-Consultant Services:

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

Part B:

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:

For consultant services for contracts estimated to cost below \$50,000 equivalent the procedures of *Chilecompra* may be followed as a form, acceptable to the Bank, of Single Source Selection without the Bank's prior approval.

SCHEDULE 5**Special Account**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (7) and (8) 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, works 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 \$500,000 to be increased, if and when the agreement with the procurement agent referred to in Section 3.07 (b) of the Loan Agreement has been signed, to the amount of \$800,000, 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.