

LOAN NUMBER 8551-CL

Loan Agreement

(Social Inclusion for Shared Prosperity Development Policy Loan)

between

THE REPUBLIC OF CHILE

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated MARCH 9th, 2016

LOAN AGREEMENT

Agreement dated MARCH 9th, 2016, entered into between the REPUBLIC OF CHILE ("Borrower") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred million United States Dollars (\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan").
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.06. The Payment Dates are April 15 and October 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.08. (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: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or *vice versa*; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or *vice versa*; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section II of Schedule 1 to this Agreement.
- 2.09 Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 5 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following, namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date one hundred eighty (180) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.
- 6.02. The Borrower's Address is:

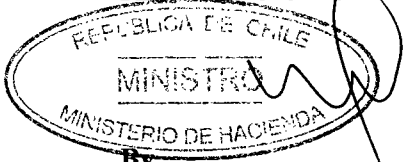
Ministry of Finance
Teatinos 120
Santiago, Chile

6.03. The Bank's Address is:

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

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

AGREED at LIMA, PERU, on FEBRUARY 15, 2016, on behalf of the Bank
and at SANTIAGO, CHILE, on MARCH 9th, 2016, on behalf of the
Borrower.

REPUBLIC OF CHILE

 By _____
Authorized Representative


Name: RODRIGO VALDES PUJICO
Title: MINISTER OF FINANCE



**INTERNATIONAL BANK FOR
RECONSTRUCTION AND
DEVELOPMENT**
 By _____
Authorized Representative

Name: ALBERTO RODRIGUEZ
Title: COUNTRY DIRECTOR



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

 By _____
Authorized Representative

Name: HERNAN FRIGOLETT
Title: TESORERO GENERAL



**Countersigned on behalf of the
Controller General of the Republic of
Chile**
 By _____
Authorized Representative

Name: Jorge Bermúdez
Title: Controlor General

12 MAYO 2016

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

- A. **Actions Taken Under the Program.** The actions taken by the Borrower under the Program include the following:
1. The Borrower has enacted the Inclusion Law No. 20845 published in the Official Gazette on June 08, 2015 (*Ley de Inclusión Escolar que Regula la Admisión de los y las Estudiantes, Elimina el Financiamiento Compartido y Prohíbe el lucro en Establecimientos Educativos que Reciben Aportes del Estado*), to improve social integration and expand schooling options for all students within the mandatory levels of schooling (primary (*Básica*) and secondary (*Media*) education).
 2. The Borrower has created PACE to support the transition of highly vulnerable students from upper secondary education to tertiary education, as evidenced by: (a) the issuance of MINEDUC's Ministerial Resolution No. 680 of January 29, 2015 creating PACE; and (b) *Partida* 09, Chapter 01, Program 03, *Subtítulo* 24, Item 03, *Asignación* 905 "Programa de Acceso a la Educación Superior" of the 2015 Public Sector Budget Law, assigning budget for PACE's implementation.
 3. The Borrower has expanded the Tertiary (*Superior*) Education Scholarship Program for students that belong to the seven lowest income deciles to promote equitable access for tertiary education, as evidenced by *Partida* 09, Chapter 01, Program 30, *Subtítulo* 24, Item 03, *Asignación* 200 "Becas Educación Superior" of the 2015 Public Sector Budget Law, describing the expansion of the Program and assigning budget for its expansion.
 4. The Borrower has provided resources and assigned budget to state universities for institutional strengthening, research and innovation, teachers development and outreach activities to improve the conditions and enhance quality of tertiary education, as evidenced by *Partida* 09, Chapter 01, Program 30, *Subtítulo* 24, Item 03, *Asignación* 807 *Convenio Marco Universidades Estatales* of the 2015 Public Sector Budget Law.
 5. The Borrower has enhanced the measurement and monitoring of poverty by: (i) implementing and releasing a revised official methodology for measuring monetary poverty; and (ii) launching and implementing an official multidimensional poverty index (MPI), as evidenced by: (a) *Oficio* No. 888 of March 30, 2015 from MDS to the President of the Special Mixed Committee of Budgeting of the Borrower's Congress, informing the release of the new methodology for measuring monetary poverty and providing a report on the development, implementation and dissemination of the MPI; and (b) *Partida* 21, Chapter 09, Program 01, *Subtítulo* 24, Item 03, *Asignación* 330 *Encuesta* CASEN, assigning budget for the implementation of enhanced measurements and monitoring of poverty.

6. The Borrower has designed a new allocation model for benefits and social services to improve targeting for social programs, as evidenced by: (i) *Oficio* No. 1244 of March 30, 2015 from MDS to the President of the Special Mixed Committee of Budgeting of the Borrower's Congress, describing the effect of the new allocation model in the improvement of the targeting of social programs; and (ii) *Partida* 21, Chapter 01, Program 01, *Subtítulo* 24, Item 03, *Asignación* 341 *Sistema de Apoyo a la Selección de Beneficios Sociales*, of the 2015 Public Sector Budget Law, assigning budget for the support of the new allocation model for benefits and social services.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Dollars)
(1) Single Withdrawal Tranche	99,750,000
(2) Front-end Fee	250,000
(3) Interest Rate Cap or Interest Rate Collar premium pursuant to Section 2.08(c) of this Agreement	0
TOTAL AMOUNT	100,000,000

- C. **Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.
- D. **Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. All withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. The Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.
- E. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is December 30, 2016.

SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on, October 15, 2028.

APPENDIX

Section I. Definitions

1. "2015 Public Sector Budget Law" means "*Ley de Presupuestos del Sector Público del Año 2015*", the Borrower's 2015 Public Sector Budget law dated November 28, 2014 and published in the Borrower's official gazette (*Diario Oficial*) on December 6, 2014.
2. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;

- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
3. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix, available to the public on the Bank's website www.worldbank.org.
 4. "Higher Education Scholarship Program" means "*Becas de Educación Superior*", the Borrower's scholarship program created pursuant to the 2013 Budget Law No. 20641 and regulated by MINEDUC's Decree No. 97 of February 22, 2015, comprising "*Becas Bicentenario*", "*Becas Juan Gómez Millas*", "*Becas Nuevo Milenio*", "*Becas para Estudiantes Hijos de Profesionales de la Educación*", "*Becas Vocación de Profesor*", "*Becas de Reparación*", "*Becas de Excelencia Académica*", "*Becas Nivelación Académica*", "*Becas de Articulación*" and "*Becas de Reubicación*".
 5. "MDS" means "*Ministerio de Desarrollo Social*", the Borrower's Ministry of Social Development.
 6. "MINEDUC" means "*Ministerio de Educación*", the Borrower's Ministry of Education.
 7. "PACE" means "*Programa de Acompañamiento y Acceso Efectivo a la Educación Superior*", the Borrower's Effective Access to Tertiary Education Program, created pursuant to Ministerial Resolution No. 680 of January 29, 2015.
 8. "Program" means the program of actions, objectives and policies designed to support: (i) promoting equal opportunities in education; (ii) improving the conditions to enhance the quality of tertiary education; and (iii) strengthening institutions for poverty measurement and enhancing targeting mechanism for social programs, as such program is set forth or referred to in the letter from the Borrower to the Bank declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
 9. "Signature Date" means the latest of the two dates on which the Borrower and the Bank signed the Loan Agreement and such definition applies to all references to "the date of the Loan Agreement" in the General Conditions. Countersignature date by de Borrower's Treasurer General and Controller General are not considered for purposes of establishing the Signature Date.

10. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
3. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
4. Section 3.01. (*Front-end Fee*) is modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty (60) days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."
5. Sections 5.01 (*Project Execution Generally*) and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the subsequent Sections in Article V are renumbered accordingly.
6. Section 5.05 (renumbered as such pursuant to paragraph 5 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
7. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

"Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than twelve (12) months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their

respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

9. In the Appendix, **Definitions**, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.
10. The Appendix is modified by inserting a new paragraph 19 with the following definition of “Commitment Charge”, and renumbering the remaining paragraphs accordingly:

“19. “Commitment Charge” means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b).”
11. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Eligible Expenditure”) is modified to read as follows:

“37. “Eligible Expenditure” means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”
12. Renumbered paragraph 44 (originally paragraph 43) of the Appendix (“Financial Statements”) is deleted in its entirety.
13. In paragraph 48 of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
14. In paragraph 67 of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“67. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”
15. In paragraph 72 of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.
16. The defined term “Project” in paragraph 75 of the Appendix is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“75. “Program” means the program referred to in the Loan Agreement in support of which the Loan is made.”