August 27, 2014

Mr. Ricardo Herrera
Executive Director
Agencia de Cooperación Internacional, AGCI
Teatinos 180, Piso 8
Santiago
Chile

Re: Grant Agreement for
Chile - Partnership for Market Readiness (PMR)
Trust Fund Implementation
Grant No. TF017731

Dear Sir,

In response to the request for financial assistance made on behalf of the Republic of Chile (Beneficiary) through the Chilean International Cooperation Agency, AGCI (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided by multiple contributors (“Contributors”) under the Partnership for Market Readiness Multi-Donor Trust Fund (PMR Trust Fund), proposes to extend to the Recipient a grant from the PMR Trust Fund in an amount not to exceed three million United States Dollars (U.S.$ 3,000,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the activities described in the Annex (“Grant Activities”).

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Contributors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Contributors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds. Accordingly, in the event that any Contributor cancels or fails to pay any contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the Recipient shall bear the risk of such funding shortfall and the World Bank shall not have any liability whatsoever to the Recipient or to any third parties in respect of any expenditures or liabilities incurred by the Recipient or any third parties in connection with this Agreement which exceed the amount of funds made available to the World Bank by the Contributors for the purposes of the Grant.
The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Grant Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy and an Operational Manual acceptable to the World Bank, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Sincerely yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(Acting as administrator of the Partnership for Market Readiness
Multi-Donor Trust Fund)

[Signature]
Livia Benavides
Acting Country Director
Bolivia, Chile, Ecuador, Peru and Venezuela
Latin America and the Caribbean Region

AGREED:

[Signature]
AGCI
By: [Authorized Representative]
Name: Enrique O’Farrill
Title: Acting as Executive Director
Date: 05.09.2014
Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006

(3) "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 and revised in January 2011


(5) "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers", dated January 2011
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. The definition of the term "Project" in paragraph 18 of the Appendix to the Standard Conditions is replaced to read as follows, and wherever used in the Standard Conditions, the term "Project" is replaced by the term "Grant Activities":

"18. ‘Grant Activities’ means the activities described in the Grant Agreement in relation to the Recipient’s implementation of the Market Readiness Proposal, for which the Grant is made."

1.03. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

(a) "AGCI" means *Agencia de Cooperación Internacional*, the Member Country's agency for international cooperation established through the Member Country’s Law No. 18.989 dated July 13, 1990 and published on July 19, 1990, as said law has been amended to the date of this Agreement.


(c) "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 Recipient’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 Recipient’s agencies.

(d) "MOE" means *Ministry of Energy*, the dependence of Chile’s Civil Service which develops and coordinates plans, policies and standards for the proper working and development of the energy sector. It ensures compliance and advises the government on all matters related to energy. The Division for Sustainable Development (DSD) under the Ministry will act as the Implementing Agency of the Grant Activities, and will be responsible for carrying out the supervision and monitoring of each of the Grant Activities.
Article II
Execution of Grant Activities

2.01. **Grant Activities, Objectives and Description.** The objectives of the Grant Activities are to provide technical assistance to the Beneficiary in the design and implementation of a Monitoring, Reporting and Verification (MRV) framework and registry, and the design and preparation of one or more carbon pricing instruments in the energy sector.

The Grant Activities consist of the following parts:

**Part 1: Regulatory, Economic and Institutional Analyses to assess the viability of one or more carbon pricing instruments for the energy sector**

The provision of support for:

a) The review of the current regulatory framework needed for one or more carbon pricing instruments and MRV framework.

b) The development of both, macro and micro economic analyses of the national situation in order to determine the potential impacts and benefits of one or more carbon pricing instruments.

c) The design of an institutional framework capable of supporting the implementation of an MRV framework and registry, and carbon pricing instruments.

**Part 2: Design and implementation of an MRV framework and registry**

The provision of support for:
(a) The design and implementation of an MRV framework, including, the legal and technical aspects to design and implement a web-based platform.
(b) The design and implementation of a bottom up registry at the sectorial level, aimed at keeping track of GHG emissions with transaction capabilities.

Part 3: Stakeholder engagement and communication strategy, and capacity building

The provision of support for:

(a) The development and execution of a stakeholder engagement and communication strategy related to the implementation of Grant Activities.
(b) Participation in trainings and country-visits by representatives from the public and/or private sector to understand experience and lessons learned on carbon pricing instrument design and operation in other countries.
(c) Technical capacity building services for the public and private sector for the design and implementation of the MRV framework and registry and carbon pricing instruments.

Part 4: PMR Implementation Coordination

The provision of support for Grant Activities management through, _inter alia_:

(a) The carrying out of the fiduciary aspects of the Grant Activities; and
(b) The carrying out of the technical aspects of the Grant Activities.

2.02. _Execution Generally._ The Recipient declares its commitment to the objectives of the Grant Activities. To this end, the Recipient shall carry out the Grant Activities in partnership with the MOE. To this end, the Recipient shall carry out the Grant Activities in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); (c) this Article II; (d) the Subsidiary Agreement; and (e) the Operational Manual.

2.03. _Institutional and Other Arrangements._ For the purposes of carrying out the Grant Activities, the Recipient shall:

(a) Enter into a subsidiary agreement with MOE, represented by the _Subsecretaría de Energía_ (“Subsidiary Agreement”), under terms and conditions acceptable to the World Bank, in accordance with the Operational Manual and this Agreement.
(b) Exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Agreement or any of its provisions.
(c) Maintain, in collaboration with the MOE, an operational manual (the "Operational Manual") throughout Grant Activities implementation, satisfactory in form and substance to the World Bank, therein setting forth rules, methods, guidelines, standard documents and procedures for the carrying out of the Grant Activities, including, *inter alia*, the following: (i) a detailed description of Grant Activities; (ii) the administrative, financial, accounting, auditing, procurement and disbursement procedures for the implementation of the Grant Activities including the relevant standard documents; and (iii) the plan for the monitoring, evaluation and supervision of the Grant Activities, including the performance indicators. The Operational Manual may be updated from time to time in agreement with the World 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.

(d) Ensure that all terms of reference for any technical assistance or studies carried out under the Grant Activities are consistent with, and pay due attention to, the World Bank’s Safeguards Policies.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Grant Activities; and

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Donors to visit any part of the Member Country’s territory for purposes related to the Grant Activities.

2.05. **Grant Activities Monitoring, Reporting and Evaluation.** (a) The Recipient shall, in collaboration with MOE, monitor and evaluate the progress of the Grant Activities and prepare Grant Activities reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Grant Activities report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report; and

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions; and

(b) The Recipient shall ensure that interim unaudited financial reports for the Grant Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar semester, covering the semester in form and substance satisfactory to the World Bank.
(c) The Recipient shall:

(i) Have the Project Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

(ii) Appoint a financial management specialist, ready to start project implementation, not later than two (2) months after Effectiveness.

2.07. **Procurement.** All goods, works, non-consulting services, and/or consulting services required for the Grant Activities and to be financed, fully or partially, out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “Guidelines: Procurement of Goods, Works, and Non-Consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (“Procurement Guidelines”), and the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011 (“Consultant Guidelines”).

(a) **Particular Methods of Procurement of Goods and Non-consulting Services**

(i) Goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding, National Competitive Bidding, Shopping or Direct Contracting except as provided in the paragraph below; and

(ii) For goods and non-consultant services estimated to cost below three hundred and fifty thousand United States Dollars (U.S. $350,000) equivalent, ChileCompra and Convenios Marcos may be used as an alternative to National Competitive Bidding or Shopping.

(b) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Well-established Private Sector Procurement Methods or Commercial Practices which have been found...
acceptable to the World Bank; (G) Selection of Individual Consultants; and
(H) Single-source procedures for the Selection of Individual Consultants.

(iii) For consultant’s services estimated to cost below U.S. $300,000 equivalent,
the procedures of ChileCompra may be followed as a form, acceptable to the
World Bank.

(iv) The call for expression of interest and award of contracts for consultant
services costing U.S. $300,000 equivalent or more, and which are selected
following the procedures set forth in the paragraph (ii) above, shall be
published in the ChileCompra portal.

(c) Review by the World Bank of Procurement Decisions. The Procurement Plan
shall set forth those contracts which shall be subject to the World Bank’s Prior
Review. All other contracts shall be subject to Post Review by the World Bank.

2.08. Any contract for Eligible Expenditures to be financed in full or in part out of the proceeds
of the Grant shall be included in the procurement plan prepared by the Recipient and approved
by the Bank in accordance with the Procurement Guidelines and the Consultant Guidelines, prior
to initiating the procurement process for any such contract.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. (a) The Recipient may withdraw the proceeds of the Grant in
accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and
(iii) such additional instructions as the World Bank may specify by notice to the Recipient
(including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised
from time to time by the World Bank and as made applicable to this Agreement pursuant to such
instructions), to finance 100% of Eligible Expenditures consisting of USD 3,000,000 (three
million United States dollars) inclusive of Taxes;

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<tr>
<th>Table of Grant Proceeds (TBC)</th>
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<tr>
<td>Category</td>
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<tr>
<td>Goods, training, consulting services, non-consulting services, operational costs under the Project.</td>
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<td>TOTAL AMOUNT</td>
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(b) For purposes of this Section the term:

(i) "Training" means the reasonable costs, as shall have been approved by the World Bank, for training conducted under the Grant Activities, including tuition, travel and subsistence costs for training participants, costs associated with securing the services of trainers speakers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to training course preparation and implementation (but excluding goods and consultants’ services); and

(ii) "Operating Costs" means the reasonable costs, as shall have been approved by the World Bank, for the incremental expenses incurred on account of Grant Activities implementation by AGCI and MOE, communication and insurance costs, banking charges, rental expenses, office (and office equipment) maintenance, utilities, document duplication/printing, consumables, travel cost and per diem for Grant Activities staff for travel linked to the implementation of the Grant Activities, and salaries of contractual staff for the Grant Activities (but excluding consultants’ services and salaries of officials of the Member Country’s civil service).

3.02. *Withdrawal Conditions.* Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of Effectiveness of this Agreement.

3.03. *Withdrawal Period.* The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is 36 months after the date of Effectiveness.

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**Article IV**

**Recipient’s Representative; Addresses**

4.01. *Recipient’s Representative.* The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Executive Director.

4.02. *Recipient’s Address.* The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Agencia de Cooperación Internacional
Teatinos 180, piso 8
Santiago
Chile
4.03. *World Bank's Address.* The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile: 1-202-522-3522