February 28, 2013

Mr. Felipe Larrain Bascuñán  
Minister of Finance  
Ministry of Finance  
Teatinos 120  
Santiago  
Republic of Chile

Re: REPUBLIC OF CHILE: IDF Grant for Strengthening Chile’s Public Senior Executive Service System Project  
(IDF Grant No. TF012847)

Dear Sir,

In response to the request for financial assistance made on behalf of the Republic of Chile (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”) proposes to extend to the Recipient a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed four hundred fifty thousand and eight hundred United States Dollars (U.S.$ 450,800) (“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 project described in the Annex (“Project”).

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project 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.
This Agreement shall become effective pursuant to the provisions of Sections 5.01 and 5.02 of this Agreement; however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank,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.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Susan G. Goldmark

Director

Bolivia, Chile, Ecuador, Peru and Venezuela

Latin America and the Caribbean Region

AGREED:

REPUBLIC OF CHILE

By

Authorized Representative

Name

Title

Date: 28-Febrero-2013

Enclosures:


2. Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.
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. **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 and the following terms shall have the following meanings:


(b) "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.

(c) "DNSC Legislation" means: (i) the Recipient’s Law No, 19.882, establishing and governing DNSC, published in the Recipient’s Official Gazette on June 23, 2003, as amended to the date of this Agreement; and (ii) the Recipient’s Ministry of Finance Supreme Decree No. 859, published in the Recipient’s Official Gazette on December 12, 2005, setting forth DNSC’s internal regulations.

(d) "HRM" means Human Resources Management.

(e) “Operational Manual” means the manual referred to in Section 2.03 (a) of this Agreement satisfactory to the World Bank and adopted by the Recipient and DNSC, respectively, as said manual may be updated and/or amended from time to time with the agreement of the World Bank.

(f) “PSES” means the Public Senior Executive System (Sistema de Alta Dirección Pública), established pursuant the Recipient’s Law No, 19.882, published in the Recipient’s Official Gazette on June 23, 2003 as amended to the date of this Agreement, setting forth the guidelines and procedures for the recruitment of the Recipient’s civil service officials, through transparent, and competitive processes.

(g) “Subsidiary Agreement” means the agreement referred to in Section 2.03 (b) of this Agreement pursuant to which the Recipient shall make the proceeds of the Grant available to DNSC.
2.01. **Project Objectives and Description.** The objective of the Project is to improve the PSES quality of performance, through better data, personnel management, competitive remuneration, and better performance of the senior executives.

The Project consists of the following parts:

**Part 1: Strengthening the Human Resource Management Capacity of DNSC**

(a) Improving the PSES data management capacity to inform decision-making, through, *inter alia*: (i) the identification of key HRM information and data; (ii) the definition of functional requirements and technical specifications for an upgraded HRM software system; and (iii) the development and installation of an upgraded HRM software system.

(b) Assessing the functioning of the PSES to inform decision making, through the design and administration of surveys to measure: (i) the professional capacities and qualifications expected from PSES’s candidates; and (ii) the overall experience of officials leaving the PSES.

**Part 2: Improving Competitiveness and Sustainability of Compensation and Grading Policies**

(a) Analyzing options for improving the PSES’s current compensation setting model linking job attributes (competencies) to remuneration and incentive structures, through: (i) the review of relevant international experiences; and (ii) the carrying out of a study tour for DNSC’s officials, selected in a manner acceptable to the World Bank, to relevant countries in order to: (A) identify policies on incentives and pay structures; and (B) develop a proposal on concrete steps to implement similar structures in the context of the PSES.

(b) (i) Developing, based on the analysis carried out under Part 2 (a) of the Project, an improved compensation setting model including, *inter alia*, a benchmarking exercise with private sector’s executive jobs; and (ii) implementing the improved compensation setting model to cover additional PSES positions, not included in the existing compensation benchmarking.

**Part 3: Improve the Performance of Senior Executives**

(a) Reviewing international experiences in performance-management regulatory frameworks and systems, including, *inter alia*: professional coaching, training programs, non-financial incentives and separation processes.

(b) Carrying out a study tour for selected officials of the Recipient to countries, selected in a manner acceptable to the World Bank, that have successfully implemented performance management systems and processes.

(c) Disseminating the studies and reports prepared under Part 2 and Part 3 of the Project.
2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Dirección Nacional del Servicio Civil ("DNSC") 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 Operational Manual; and (e) the Subsidiary Agreement.

2.03. **Institutional and Other Arrangements.** To facilitate the carrying out of the Project:

(a) The Recipient shall cause the Project to be carried out, in accordance with the provisions of a manual satisfactory to the World Bank ("Operational Manual"), which shall include, *inter alia*, the following provisions: (i) the Project financial management, disbursement and procurement procedures; (ii) the Project implementation arrangements and detailed procedures for coordination between the Recipient and DNSC; (iii) the Project operational and administrative procedures; and (iv) the Project indicators and the procedures for the monitoring and evaluation of the Project. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

(b) The Recipient shall make the proceeds of the Grant available to DNSC under a subsidiary agreement ("Subsidiary Agreement") between the Recipient and DNSC, under terms and conditions acceptable to the World Bank, and adequate to protect the interests of the Recipient and those of the World Bank, which shall include, *inter alia*:

(i) the obligation of the Recipient to take or permit to be taken all actions to enable DNSC to comply with its respective obligations under the Subsidiary Agreement;

(ii) the right of the Recipient, to suspend or terminate the right of DNSC to use the proceeds of the Grant, or obtain refund of all or any part of the amount of the Grant then withdrawn, upon DNSC's failure to perform any of its obligations under the Subsidiary Agreement; and

(iii) The obligation of DNSC to:

(A) carry out the Project, in accordance with the provisions of the Operational Manual, the Anti-Corruption Guidelines and the provisions of this Agreement;

(B) ensure that the proceeds of the Grant are used exclusively for the purposes of the Project;

(C) provide promptly as needed, any additional resources within its control and required for the purpose of implementing the Project;

(D) maintain policies and procedures to monitor and evaluate the progress of the Project on the basis of indicators acceptable to the World Bank, all in accordance to the provisions of Section 2.04 of this Agreement;

(E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the
operations, resources and expenditures related to the implementation of
the Project; and (2) at the World Bank's or the Recipient's request have
such financial statements audited by independent auditors acceptable to
the World Bank, and promptly furnish the statements as so audited to the
Recipient and the World Bank; and (3) make such financial statements
publicly available in a timely fashion and in a manner acceptable to the
World Bank, all in accordance with the provisions of Section 2.05 of this
Agreement;

(F) procure the goods, consultants' services and non-consulting services
required for the Project and to be financed out of the proceeds of the
Grant, in accordance with the provisions of Section 2.06 of this
Agreement;

(G) enable the Recipient and the World Bank to inspect the Project, their
operation and relevant records and documents;

(H) prepare and furnish to the Recipient and the World Bank all such
information as the Recipient or the World Bank shall reasonably request
relating to the implementation of the Project;

(I) take, and/or cause to be taken, all necessary actions to enable the
Recipient to comply with its obligations under this Agreement; and

(J) promptly inform the World Bank of any condition which interferes or
threatens to interfere with the progress of the Project, the
accomplishment of the purposes of the Grant, or the performance of its
obligations under the Subsidiary Agreement.

(c) The Recipient shall 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, waive or fail to enforce the Subsidiary Agreement or
any of its provisions.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall cause
DNSC to monitor and evaluate the progress of the Project and, upon the World Bank's request,
prepare Project 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, and set forth in the
Operational Manual. Each Project Report shall cover such period as shall be indicated in the
World Bank's request and shall be furnished to the World Bank not later than (1) one month after
the date of such request.

(b) The Recipient shall cause DNSC, upon the World Bank's request, to 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 (5) five months after
the Closing Date.
2.05. **Financial Management.** (a) The Recipient shall cause DNSC to ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

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

(c) The Recipient shall cause DNSC to have its 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 DNSC. The audited Financial Statements for each such period shall be furnished to the World Bank not later than (6) six months after the end of such period.

2.06. **Procurement.**

(a) **General.** All goods, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of 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"), in the case of goods and non-consulting services;

(ii) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("Consultant Guidelines") in the case of consultants' services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **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 National Competitive Bidding, Shopping or Direct Contracting except as provided in the paragraph (ii) 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.
(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in items (ii) and (iii) 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 three hundred thousand United States Dollars (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 consultants’ services costing three hundred thousand United States Dollars (U.S. $300,000) equivalent or more, and selected following the procedures set forth in paragraph (ii) above, shall be published in the ChileCompra portal.

(e) 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.

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 Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
Percentage of Amount of the Grant Expenditures to be Allocated Financed (expressed in USD) (inclusive of Taxes)

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>100,000</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services (excluding audits)</td>
<td>314,000</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>(3) Training (including study tours)</td>
<td>36,800</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>450,800</td>
<td></td>
</tr>
</tbody>
</table>

(b) For the purposes of this Section, the term “Training” means the reasonable costs for training conducted under the Project, including, *inter alia*: travel and subsistence costs of training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training preparation and implementation (but excluding goods and consultants’ services).

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 countersignature of this Agreement by the Recipient.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years after the date of countersignature of this Agreement by the Recipient.

**Article IV**

**Additional Remedies**

4.01. Additional Events of Suspension. The Additional Events of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following:

(a) DNSC’s Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the World Bank, the ability of the Recipient and/or DNSC to comply with any of their respective obligations under this Agreement or the Subsidiary Agreement, respectively.

(b) DNSC shall have failed to comply with any of its pertinent obligations under the Subsidiary Agreement.
Article V
Effectiveness; Termination

5.01 Effectiveness Conditions. This Agreement shall become effective upon receipt by the World Bank of:

(a) a countersigned original of this Agreement;

(b) evidence, satisfactory to the World Bank, that the Operational Manual has been adopted by the Recipient and DNSC; and

(c) evidence, satisfactory to the World Bank, that the Subsidiary Agreement has been executed and delivered on behalf of the Recipient and DNSC.

5.02 Effective Date. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”).

5.03 Termination for Lack of Implementation or Disbursement. This Agreement and its obligations shall terminate if, by September 3, 2013, the World Bank has not received evidence that the Recipient: (a) has signed any consulting services contract required for the Project; and/or (b) has requested a withdrawal of Grant proceeds; unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01 Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Ministry of Finance.

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

Ministry of Finance
Teatinos 120
Santiago, Republic of Chile

6.03 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

Cable: INTBAFRAD 248423 (MCI) or 1-202-477-6391
Telex: 64145 (MCI)