

CONFORMED COPY

LOAN NUMBER 7485-CH

Loan Agreement

(Second Public Expenditure Management Project)

between

REPUBLIC OF CHILE

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 29, 2007

LOAN AGREEMENT

Agreement dated November 29, 2007, between REPUBLIC OF CHILE (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank 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 twenty four million eight hundred thousand Dollars (\$24,800,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.

- 2.07. (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 the 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 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 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out under the overall coordination and monitoring of DIPRES:
- (a) Parts A, B, and D of the Project through DIPRES with the assistance of CGR and the Central Government Entities in respect of Part A of the Project; and
- (b) Part C of the Project through SUBDERE with the assistance of CGR and of the Municipalities, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following:

CGR or any Central Government Entity or Municipality shall have failed to perform any of its respective obligations under the CGR Agreement, or the respective Entity Agreement or Municipal Agreement.

4.02. The Additional Event of Acceleration consists of the following:

Any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on February 28, 2009.

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

Facsimile: (56-2) 698-8903

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 Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Santiago, Chile, as of the day and year first above written.

REPUBLIC OF CHILE

By /s/ Andrés Velasco

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Pedro Alba

Authorized Representative

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

By: /s/ Pamela Cuzmar Poblete
Authorized Representative

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

By: /s/ Ramiro Mendoza Zúñiga
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase the efficiency of operations regarding financial management, budget formulation and budget execution, and the transparency in public expenditure management at the central and municipal level through the implementation of an updated, functionally enhanced and expanded financial administration system.

The Project consists of the following parts:

Part A: Upgrading and Extending the Financial Information System to the Central Government Entities

1. Upgrading and expanding SIGFE functions:

(a) Updating of software to improve and optimize SIGFE functions, especially with respect to budget programming, budget execution, and accounting and treasury functions.

(b) Upgrading software and hardware to overcome operational problems, increase processing capacity, facilitate the integration of all modules, and increase automatic links between different budget, commitment and accounting classifications.

(c) Strengthening the capacity of SIGFE to prepare reports for internal and external users, such as other public entities, Congress, and the Normative Entities.

(d) Improving SIGFE to allow interconnectivity with other systems such as *Chilecompra*, public investment database and other systems aimed at improving the decision making process including, *inter alia*, fixed asset and cash management.

(e) Strengthening the capacity of financial management units within Central Government Entities and diagnosis of the improvement needs of the key processes of the financial administration, and normative framework related to the access and processing of data.

(f) Integrating SIGFE as an operational unit within DIPRES on the basis of best international practice.

(g) Aggregation and consolidation of the financial information of the General Government with the financial and accounting information provided by Central Government Entities and Municipalities.

2. Extending SIGFE to Central Government Entities:

(a) Definition of reporting standards consistent with the norms issued by the Normative Entities for the Central Government Entities which have financial information systems other than SIGFE.

(b) Analysis and evaluation of: (i) the process of implementation of a market-product financial information system used in one Central Government Entity prior to the date of this

Agreement; and (ii) a subsequent implementation of one such market-product in at least one public institution proposed by the Borrower and agreed to by the Bank.

(c) Diagnosis of the improvement needs of the financial management processes in Central Government Entities so that they may be integrated into SIGFE.

(d) Installation of SIGFE or an alternative system in the Pension Agency or its successor or successors.

(e) Provision of hardware for the implementation of SIAPER in General Government Entities.

3. Strengthening the Public Treasury:

(a) Revision and updating of the conceptual model for accounting and budget, including norms and procedures, to improve accounting and budget records of the Public Treasury.

(b) Revision of norms and procedures used in the recording and administration of financial assets and liabilities.

(c) Design and implementation of improvements to the Public Treasury system to record account and budget information.

(d) Review of the interconnection between such improved accounting and budget system with other information and management subsystems of the Public Treasury, consistent with the norms and procedures approved by the Normative Entities.

Part B: Improvement of Budget Procedures and Management Control System

1. Improvement of Budget Procedures:

(a) Developing a conceptual model for integrating information from the Borrower's MCS into the Borrower's budget formulation process, including linking the budget classification with the information categories of the MCS.

(b) Developing new budget techniques such as budget formulation by policy areas and performance-based-budgeting.

(c) Developing and implementation of an improved version of SIAP in DIPRES interconnected with SIGFE and the information system of MCS.

(d) Carrying out studies to improve the Borrower's budget process, including public treasury functions and cash management, as such studies may be proposed by the Borrower and approved by the Bank.

(e) Strengthening DIPRES' capacity to generate information to be provided to Congress.

2. Strengthening the Management Control System:

(a) Strengthening the existing information technology instruments used by the MCS and integrating them better.

(b) Developing and implementation of a MCS information system that interoperates with SIGFE and the SIAP improved under Part B.1 (c) of the Project.

(c) Strengthening the institutional capacities of the MCS so that it may operate along the lines envisaged by the conceptual model referred to in Part B.1 (a) of the Project.

(d) Developing a methodology to quantify the coverage of MCS in relation to the public sector programs which are subject to evaluation.

(e) Improving processes to enable decision makers in government agencies and in Congress to make more efficient use of information generated by the MCS, including adapting reporting formats to the specific needs of the users.

Part C: Strengthening Financial Administration at the Municipal Level

1. Development of a Municipal Financial Information System:

(a) Development and implementation of a municipal financial information system which: (i) aggregates and integrates financial information from the sub-systems of the Municipalities; and (ii) interconnects with SIGFE.

(b) Development of an interface linking the financial information subsystems of the Municipalities with the new municipal financial information system referred to in Part C.1 (a) above.

(c) Definition of norms to standardize the financial information provided by Municipalities which are: (i) consistent with technical requirements approved by the Normative Entities; and (ii) meet the needs of internal and external users.

(d) Strengthening the capabilities of the Borrower's agencies, in particular DIPRES and SUBDERE, for analyzing and monitoring the financial situation of Municipalities.

(e) Dissemination of the municipal financial information system to the Municipalities and ACHM.

(f) Training users in the use of the system.

2. Installation of a Sub-System of Municipal Financial Administration:

(a) Diagnosis of the information technology and communication capacity at the municipal level, based on a survey of the technological infrastructure currently available in the Municipalities, including internet access and broad-band connection.

(b) Diagnosis of the financial administration systems available in the market, their capabilities and the cost of installation and operation of such systems.

(c) Strengthening of the capacity of the Selected Municipalities to operate financial administration subsystems and the municipal financial information system.

(d) Strengthening of financial administration of selected Municipalities, including, inter alia, the provision of equipment and the introduction of a system of financial administration in those municipalities that currently lack one, including data assembly, testing, and equipment, data migration and implementation of the Technology Upgrading Plans, as applicable.

(e) Provision of training programs for municipal authorities and staff, focusing on the operation of the new financial administration sub-system and the use of information from it.

Part D: Project Management

1. Provision of technical assistance to Central Government Entities as part of the implementation of SIGFE or SIGFE-compatible financial administration systems.

2. Strengthening of the Borrower's capacity to monitor and supervise the overall implementation of the Project.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Borrower shall:

(a) establish by no later than two months after the Effective Date, and thereafter maintain during the execution of the Project, within the DIPRES, a coordination unit (the PIU) to manage Project implementation with functions and responsibilities set forth in the Operational Manual and staffed with a qualified and experienced coordinator and qualified and experienced technical and fiduciary experts; and

(b) not later than two months from the Effective Date, through SUBDERE, assign qualified and experienced technical and fiduciary experts to manage the implementation of Part C of the Project.

2. Without limitation to the provisions of Article V of the General Conditions, the Borrower shall carry out the Project in accordance with an Operational Manual, satisfactory to the Bank, containing, *inter alia*:

(a) the terms of reference, functions and responsibilities for the personnel of the PIU;

(b) procedures for procurement of goods, works and services, as well as for financial management and audits of the Project;

(c) the indicators to be used in the monitoring and evaluation of the Project;

(d) draft models for the Municipal Agreements and Entity Agreements; and

(e) flow and disbursement arrangements of Project funds.

In case of any conflict between the provisions of this Agreement and those of the Operational Manual, the provisions of this Agreement shall prevail.

B. Agreements

1. The Borrower shall:

(a) through DIPRES enter into, prior to submitting withdrawal applications in respect of expenditures for the respective Central Government Entity under Part A of the Project, an agreement, under terms substantially in accordance with the terms of the respective Model Entity Agreement, and to set forth the respective responsibilities of DIPRES and the respective Central Government Entity in the implementation of such Part A of the Project and the indicators of performance to be met by the Central Government Entity; and

(b) through SUBDERE, enter into, prior to the Borrower, through DIPRES, submitting withdrawal applications in respect of expenditures for the respective Municipality under Part C of the Project, an agreement with each Municipality, under terms substantially in accordance with the terms of the respective Model Municipal Agreement, and to set forth the respective responsibilities of SUBDERE and the respective Municipality in the implementation of Part C of the Project, and the indicators of performance to be met by the Municipality.

2. The Borrower shall exercise its rights under the CGR Agreement and each of the Entity Agreements and Municipality Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the CGR Agreement, or any of the Entity Agreements or Municipality Agreements.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines provided, however, that the provisions of paragraph 10 (a) will not apply with respect of suppliers and service providers which are parties to the Prior Loan Contracts.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Operational Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report not later than forty-five days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods, Non-Consultants Services and Works.

(a) The Prior Loan Contracts required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in the Prior Loan Agreement.

(b) All other goods and non-consultant services, and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants' Services.

All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Non-Consultant Services and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, non-consultant services and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Non-Consultant Services and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, non-consultant services and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping

3. **Special Provisions.**

- (a) The following provisions shall apply to contracts procured under National Competitive Bidding:
 - (i) The lowest evaluated bid shall be selected for contract award.
 - (ii) There shall be no prescribed minimum number of bids to be submitted in order for a contract to be subsequently awarded.
- (b) *Chilecompra* portal may be used for advertisement and processing of International Competitive Bidding and National Competitive Bidding procurement provided that the bidding documents are the standard bidding documents of the Bank for International Competitive Bidding and bidding documents for National Competitive Bidding acceptable to the Bank.
- (c) *Chilecompra's Convenio Marco* may be used as an alternative to National Competitive Bidding or Shopping provided that the Borrower: (i) compares at least three prices of items or non-consultant services that meet the specifications of the bid or request for offers; and (ii) awards the contract to the lowest compared price.

C. **Particular Methods of Procurement of Consultants' Services**

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Quality-Based Selection
(b) Fixed-Budget Selection
(c) Least-Cost Selection
(d) Single Source Selection
(e) Selection based on Consultants' Qualifications
(f) Individual Consultants

3. **Special Provisions.**

- (a) The call for expression of interest and award of contracts for consultant services and which are selected following the procedures set forth in paragraph 2 above, other than 2 (f), shall be published in a manner and on terms acceptable to the Bank.

- (b) For consultant services for contracts estimated to cost below \$100,000 equivalent the procedures of *Chilecompra* may be followed as a form, acceptable to the Bank, of Single Source Selection.
- (c) There shall be no prescribed minimum number of proposals to be submitted in order for a contract to be subsequently awarded.

D. 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 IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) Goods, non-consultant services, works, consultants’ services, Operating Costs and Training for Parts A, B and D of the Project	20,238,000	100%
(2) Goods, non-consultant services, works, consultants’ services, Operating Costs and Training for Part C of the Project	4,500,000	100%
(3) Front-end Fee	62,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.07 (c) of this Agreement
TOTAL AMOUNT	24,800,000	

For the purposes of this Schedule:

- (a) the term “Training” means the reasonable non-consultant expenditures incurred by the Borrower in connection with the carrying out of the training activities, including travel costs, *per diem* of trainers and trainees, fees and related costs for training facilitators, training materials, and rental of training facilities and equipment; and
- (b) the term “Operating Costs” means the reasonable cost of recurrent expenditures which would not have been incurred absent the Project.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee if applicable; or
 - (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not exceeding \$4,900,000 equivalent may be made for payments made within twelve months prior to the date of this Agreement for Eligible Expenditures.
2. The Closing Date is June 30, 2013.

SCHEDULE 3

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each February 15 and August 15 Beginning February 15, 2013 through August 15, 2017	10%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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 sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-

paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is 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.

APPENDIX

Section I. Definitions

1. “ACHM” means *Asociación Chilena de Municipalidades*, the Association of Municipalities of Chile established in accordance with the provisions of title VI of the Borrower’s Law No. 18.695 (*Ley N° 18.695-Ley Orgánica de Municipalidades*) duly published in the official gazette on March 31, 1988, as said law has been amended to the date of this Agreement.
2. “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.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Central Government Entity” means any of the Borrower’s ministries and agencies listed yearly in the Borrower’s budget law, excluding the Armed Forces and the Police.
5. “CGR” means the Borrower’s Office of the Comptroller General.
6. “CGR Agreement” means the Protocol entered into between the Borrower and CGR on October 3, 2005 whereby the cooperation arrangements for implementation of SIGFE were set forth.
7. “*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 the Ministry of Finance’s Supreme Decree No. 250 of September 24, 2004.
8. “Congress” means the Borrower’s legislative power.
9. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
10. “*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.
11. “DIPRES” means the Directorate of Budget within the Borrower’s Ministry of Finance.
12. “Entity Agreement” means any of the agreements referred to in Section I.B.1.(a) of Schedule 2 to this Agreement.

13. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).
14. “General Government” means the Central Government Entities and the Municipalities.
15. “MCS” means DIPRES’ management control system set forth in the Borrower’s document entitled “*Informe de Finanzas Públicas para el Proyecto de Ley de Presupuestos para 2007*”, dated October 2006.
16. “Model Entity Agreement” means the draft model Entity Agreement referred to in Section I.A.2. (d) of Schedule 2 to this Agreement.
17. “Model Municipal Agreement” means the draft model Municipal Agreement referred to in Section I.A.2.(d) of Schedule 2 to this Agreement.
18. “Municipality” means any municipality referred to in the Borrower’s Law No. 18.695 published in the Borrower’s Official Gazette on March 31, 1988, as amended by the Borrower’s Law No. 19602 published in the Borrower’s Official Gazette on March 25, 1999.
19. “Municipal Agreement” means any of the agreements referred to in Section I.B.1 (b) of Schedule 2 to this Agreement.
20. “Normative Entity” means the CGR and DIPRES and such other agency as the Borrower may establish with powers to issue financial and accounting norms.
21. “Operational Manual” means the manual approved by the Bank on July 20, 2007 as the same may be amended from time to time by agreement between the Borrower and the Bank.
22. “Pension Agency” means the Borrower’s *Instituto de Normalización Previsional*.
23. “PIU” means the unit to be established in accordance with the provisions of Section I.A.1 of Schedule 2 to this Agreement.
24. “Prior Loan Agreement” means the agreement entered into between the Borrower and the Bank for the Public Expenditure Management Project on June 20, 2002.
25. “Prior Loan Contract” means any of the four contracts for goods and non-consultant services listed in the Procurement Plan for which the Bank provided its no-objection to initiate the procurement process prior to October 15, 2006.
26. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
27. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated August 2, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

28. “Public Treasury” means the Borrower’s income and expenditures referred to in paragraph 1. I. of the Borrower’s Decree No. 854 of September 29, 2004.
29. “Selected Municipality” means any of the Municipalities listed in the Operational Manual for purposes of Part C of the Project.
30. “SIAP” means the budget administration system set forth in the Borrower’s document entitled “*Informe de Finanzas Públicas Proyecto de Ley de Presupuestos del Sector Público para el año 2006*”, dated September 2005.
31. “SIAPER” means the Borrower’s human resource management system of its civil service set forth in the Borrower’s document entitled “*Informe de Finanzas Públicas Proyecto de Ley de Presupuestos del Sector Público para el año 2006*”, dated September 2005.
32. “SIGFE” means the Borrower’s financial administration system set forth in the Borrower’s document entitled “*Informe de Finanzas Públicas para el Proyecto de Ley de Presupuestos para 2007*”, dated October 2006.
33. “SUBDERE” means the Borrower’s Subsecretariat of Regional Development and Administration.
34. “Technical Upgrading Plan” means any plan prepared by a Municipality and approved by SUBDERE for purposes of Part C.2 (d) of the Project and containing selected activities needed to prepare the infrastructure for the implementation of the municipal financial management system, including limited works for creating a municipal intranet, and the provision of physical and passive security for the equipment and facilities.