

CONFORMED COPY

LOAN NUMBER 2873 ES

(Earthquake Reconstruction Project)

between

REPUBLIC OF EL SALVADOR

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated October 16, 1987

LOAN NUMBER 2873 ES

LOAN AGREEMENT

AGREEMENT, dated October 16, 1987, between REPUBLIC OF EL SALVADOR (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and

Guarantee Agreements" of the Bank, dated January 1, 1985 (the General Conditions), with the last sentence of Section 3.02 deleted, constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(b) "Reconstruction Program" means the overall earthquake reconstruction program of the Borrower and which includes a plan of measures and actions to be taken by the Borrower to redress damages and mitigate future losses from earthquakes, as well as a three-year physical works and financing plan therefor;

(c) "MIPLAN" means the Ministry of Planning, Ministerio de Planificacion y Coordinacion del Desarrollo Economico y Social, of the Borrower and which shall, through the Reconstruction Unit (as hereinafter defined) coordinate and supervise the execution of the Project;

(d) "MOP" means the Ministry of Public Works, Ministerio de Obras Publicas, of the Borrower;

(e) "VMVDU" means the Vice-Ministry of Housing and Urban Development, Vice-Ministerio de Vivienda y Desarrollo Urbano, of MOP;

(f) "DGC" means the General Directorate of Roads, Direccion General de Caminos, of MOP;

(g) "DUA" means the Directorate of Urban Affairs and Architecture, Direccion de Urbanismo y Arquitectura, of MOP;

(h) "MINED" means the Ministry of Education, Ministerio de Educacion, of the Borrower;

(i) "MINTRABAJO" means the Ministry of Labor, Ministerio de Trabajo, of the Borrower;

(j) "BCR" means the Central Bank, Banco Central de Reserva, of the Borrower, established by Decreto No. 116, as published in the Diario Oficial No. 71, Book 191, of April 1961;

(k) "Reconstruction Unit" means Direccion General de Reconstruccion, established by Acuerdo Ministerial of June 5, 1987, as part of MIPLAN;

(l) "RU Procedures" means the operating procedures of the Reconstruction Unit;

(m) "Convenio" means any one of the agreements to be entered into by the Borrower, through MIPLAN, and each of the Implementing Agencies (as hereinafter defined) pursuant to Section 3.01 (b) of this Agreement, for purposes of carrying out a Part or Parts of the Project which includes, inter alia, the terms and conditions set forth in Schedule 6 to this Agreement, as the same may be amended from time to time and such term includes all schedules and agreements supplemental to each such Convenio;

(n) "Project Area" means the San Salvador metropolitan area, the municipality of Apopa and District 7 of the Region of Apopa;

(o) "PRONAVIPO" means the National Program of Popular Housing, Programa Nacional de Vivienda Popular, established by Decreto Legislativo No. 43 of June 26, 1986 and Decreto Legislativo No. 411 of July 18, 1986;

(p) "FNV" means the National Housing Finance, Financiera Nacional de Vivienda, established by Decreto Legislativo No. 282, of March 13, 1963;

(q) "Housing Intermediaries" means collectively PRONAVIPO and FNV, and such other housing intermediaries as shall be acceptable to the Bank, which participate, or have participated, in the provision of Housing Credits (as hereinafter defined) under Part A of the Project; "Housing Intermediary" means any one of such Intermediaries;

(r) "HI Participating Agreement" means the agreement to be entered into between the Borrower, through VMVDU, and each Housing Intermediary which includes, inter alia, the terms and conditions set forth in Parts I and II of Schedule 6 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to each such HI Participating Agreement;

(s) "Housing Subproject" means a specific project for the reconstruction or construction of high density, low-income dwellings, carried out, or to be carried out, by a Housing Beneficiary (as hereinafter defined) under Part A of the Project and utilizing the proceeds of a Housing Credit;

(t) "Housing Credit" means a credit in Colones made, or proposed to be made, by a Housing Intermediary to a Housing Beneficiary (as hereinafter defined) for a Housing Subproject financed, or to be financed from the proceeds of the Loan;

(u) "Minimum Income" means the equivalent of the lowest minimum monthly salary for persons engaged in construction and residing in the Project Area, as determined by MINTRABAJO;

(v) "Family Unit" means a family grouping and includes, when applicable, the head of household, spouse, sons, daughters and other family members of the same dwelling;

(w) "Family Income" means and includes all income earned by members of a Family Unit;

(x) "Housing Beneficiary" means a Family Unit or group of Family Units residing in the Project Area each of which has an income of not less than the equivalent of one Minimum Income and not higher than the equivalent of three times the Minimum Income;

(y) "Housing Intermediary Lending Policies Manual" means the rules, procedures and policies, acceptable to the Bank, for Housing Intermediaries lending operations providing credit lines to Housing Beneficiaries, including, inter alia, the terms and conditions set forth in Schedule 7 to this Agreement;

(z) "Housing Credit Contract" means the agreement to be entered into between a Housing Intermediary, or a Housing Intermediary through its financial agent, and each individual with legal capacity to contract and forming part of a Housing Beneficiary, which includes, inter alia, the terms and conditions set forth in Schedule 7 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to each such Housing Credit Contract;

(aa) "Housing Finance Study" means the study to be carried out by the Borrower, through VMVDU, under terms of reference satisfactory to the Bank, to develop a system for repayment of Housing Credits;

(bb) "Housing Credit Repayment System" means a system, acceptable to the Bank and based on the results of the Housing Finance Study, for the repayment of Housing Credits;

(cc) "ANTEL" means Administracion Nacional de Telecomunicaciones established by Decreto Legislativo No. 370 of September 3,

1963;

(dd) "ANDA" means Administracion Nacional de Acueductos y Alcantarillados, established by Decreto No. 241 of December 6, 1963, published in the Diario Oficial on December 6, 1963;

(ee) "FIGAPE" means the Small Enterprise Financing and Guarantee Fund, Fondo de Financiamiento y Garantia para la Pequena Empresa, established by Decreto Legislativo No. 324 of May 10, 1973;

(ff) "BAC" means Banco Agricola Comercial de El Salvador established by its Escrituras de Constitucion del Banco Agricola Comercial of January 31, 1955 and registered in Number 54, Folios 452 and following, Book 416 of the Registro de Sociedades del Registro de Comercio;

(gg) "PFIs" means collectively participating financial intermediaries including FIGAPE and BAC, and such other financial intermediaries as shall be acceptable to the Bank, which participate, or have participated, in the provision of ISE Subloans (as hereinafter defined) under Part D of the Project; "PFI" means any one of such PFIs;

(hh) "ISE Subloan" means a loan in Colones made, or proposed to be made, by a PFI to an ISE Beneficiary (as hereinafter defined) for the purpose of Part D of the Project financed from the proceeds of the Loan;

(ii) "IS Enterprise" means an enterprise in the informal sector, including all individuals and business enterprises with an ownership interest therein, with Business Assets of no more than the equivalent of \$10,000; and the term "Business Assets" means inventories, machinery, equipment, replacement parts, buildings and related structures owned by the IS Enterprise and used by such IS Enterprise in carrying out its business;

(jj) "ISE Beneficiary" means an individual or group of individuals with an ownership interest in an IS Enterprise located in the Project Area;

(kk) "PFI Lending Policies Manual" means the rules and procedures and policies acceptable to the Bank, for PFI lending operations providing credit lines to IS Enterprises, including, inter alia, the terms and conditions set forth in Schedule 9 to this Agreement;

(ll) "PFI Participating Agreement" means the agreement to be entered into between BCR and each PFI that includes, inter alia, the terms and conditions set forth in Schedule 8 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to each such PFI Participating Agreement;

(mm) "ISE Subloan Contract" means the agreement to be entered into between a PFI and each ISE Beneficiary, and the IS Enterprise when the IS Enterprise has legal personality, which includes, inter alia, the terms and conditions set forth in Schedule 9 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to such ISE Subloan Contract;

(nn) "Implementing Agencies" means the ministries and directorates of the Borrower and entities set forth in Section 3.01 (b) of this Agreement, and such other ministries, directorates or entities as shall be acceptable to the Bank, responsible for carrying out the Project or any Part thereof;

(oo) "Emergency Code" means the temporary anti-seismic building code, Reglamento de Emergencia del Diseno Sismico de la Republica de El Salvador, published by the Salvadoran Association of Engineers and Architects in November 1986;

(pp) "CPI" means the consumer price index of inflation published monthly by Direccion de Estadistica y Censo del Ministerio de Economia, Boletin Mensual de Indice Precios del Consumidor;

(qq) "Colon" means the currency of the Borrower;

(rr) "Extraordinary Budget" means the Borrower's Presupuesto Extraordinario para la Reactivacion Economica approved by the Borrower's decree No. 206 published in the Diario Oficial on May 2, 1983; and

(ss) "Extraordinary Budget Procedures" means the Borrower's budget procedures established by Instructivo No. 1204 of the Ministerio de Hacienda y Planificacion of September 4, 1984.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount in various currencies equivalent to sixty-five million dollars (\$65,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made or, if the Bank shall so agree, to be made, in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a Special Account in BCR on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1993 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second

six months of a calendar year.

Section 2.06. Interest and other charges shall be payable semiannually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end, shall carry out the Project through the Implementing Agencies, and shall supervise and coordinate the implementation of the Project through the Reconstruction Unit, all with due diligence and efficiency and in conformity with appropriate administrative, financial, anti-seismic building and zoning practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower, through MIPLAN, shall enter into a Convenio, under terms and conditions satisfactory to the Bank including those terms and conditions set forth in Schedule 6 to this Agreement, with each Implementing Agency other than MIPLAN:

- (i) to carry out the Part or Parts of the Project for which such Implementing Agency is responsible; and
- (ii) to transfer the portion of the proceeds of the Loan and the counterpart funds required by each such Implementing Agency to carry out such Part or Parts of the Project. The Implementing Agency responsible for each Part of the Project shall be as follows:

Part of the Project	Implementing Agency
A. Housing Credits and Construction	VMVDU, through Housing Intermediaries
B.1 Schools	MINED
B.2 Public Buildings	MOP, through DUA
C.1 Roads	MOP, through DGC
C.2 Water Supply	ANDA
C.3 Telecommunications	ANTEL
D. Micro-enterprise Subloans	BCR, through PFIs
E. Training Formacion Profesional	MINTRABAJO, through its Centro de
F. Studies, Technical Assistance and Project Management	MIPLAN, through the Recon- struction Unit

(c) Unless otherwise agreed by the Bank, the Borrower shall not change or fail to enforce any provision of any Convenio referred to in paragraph (b) of this Section.

(d) The Borrower shall, through MIPLAN: (i) carry out the studies referred to in Part F.1 of the Project in a timely manner and under terms of reference satisfactory to the Bank; and (ii) discuss the results of each such study with the Bank upon the conclusion of each such study.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services to be financed out of the proceeds of the Loan and required for: (i) Parts A, B, C, E and F of the Project shall be governed by the provisions of Schedule 4 to this Agreement; and (ii) Part D of the Project shall be governed by the provisions of Schedule 9 to this Agreement.

Section 3.03. (a) The Borrower shall: (i) establish and maintain through completion of the Project, a Reconstruction Unit with an adequate number of qualified and experienced staff, satisfactory to the Bank, for purposes of coordinating, programming, managing, monitoring and evaluating the Project and the Reconstruction Program, as well as providing technical assistance and support to Implementing Agencies, Housing Intermediaries and PFIs; and (ii) appoint and retain through completion of the Project, a director general of, and a technical advisor and professional staff for, the Reconstruction Unit, whose qualifications, terms and conditions of employment shall be satisfactory to the Bank.

(b) The Borrower shall notify the Bank at least 60 days prior to any proposed change in the composition of the Reconstruction Unit and shall not make any such change without the prior approval of the Bank.

(c) The Borrower shall ensure that the Reconstruction Unit has sufficient funds, resources and facilities to carry out its responsibilities with respect to the Project and the Reconstruction Program in an expeditious manner, satisfactory to the Bank, including utilizing its Extraordinary Budget Procedures to transfer the proceeds of the Loan, and all other loans or grants required for the financing of the Project, to the Reconstruction Unit.

Section 3.04. The Borrower shall: (i) within one year of the Effective Date of the Loan, adopt and put in full force and effect, an anti-seismic building code, acceptable to the Bank; and (ii) ensure that all Housing Subprojects financed from the proceeds of the Loan comply with the provisions of the Emergency Code, or when effective, with the anti-seismic building code referred to in subparagraph (i) of this Section.

Section 3.05. The Borrower shall: (a) furnish the implementation schedule and financing plan for the first year of the Reconstruction Program to the Bank by October 31, 1987; (b) acquire or provide, by December 31, 1987, all land required: (i) to carry out Parts B (2) (b) and C of the Project; and (ii) to carry out the first year of implementing Parts B (1) (b) and B (1) (c) of the Project; (c) arrange, in a timely manner, for the provision of all land required to carry out Part A of the Project; (d) exchange views with the Bank regarding the progress of implementing and obtaining additional financing for the Reconstruction Program, on a semiannual basis, and at such other times as the Bank or the Borrower may reasonably request; and (e) furnish to the Bank any updates to, or revisions of, the Reconstruction Program within a reasonable period of time after such updates or revisions are made.

Section 3.06. Without limitation upon any of its other reporting obligations under this Agreement and the General Conditions, the Borrower shall:

(a) furnish to the Bank on a bimonthly basis, beginning on December 31, 1987 and every two months thereafter through completion of the Project, a report, satisfactory to the Bank,

regarding the progress of implementing and managing the Project and Housing Subprojects, the making of Housing Credits and ISE Subloans, the performance of the Implementing Agencies under the Convenios, of Housing Intermediaries under HI Participating Agreements and of PFIs under PFI Participating Agreements of their respective obligations, the composition and operations of the Reconstruction Unit and other matters relating to the purposes of the Loan; and

(b) promptly inform the Bank of any condition which interferes, or threatens to interfere, with the operations of the Reconstruction Unit, the progress of implementing the Reconstruction Program, the Project, Housing Subprojects, the accomplishment of the purposes of the Loan, or the performance by the Implementing Agencies, Housing Intermediaries and PFIs of their respective obligations under the relevant agreements referred to in paragraph (a) of this Section.

Section 3.07. The Borrower shall, through VMVDU, enter into a HI Participating Agreement with each Housing Intermediary, under terms and conditions satisfactory to the Bank, which shall include, inter alia, the terms and conditions set forth in Parts I and II of Schedule 6 to this Agreement.

Section 3.08. The Borrower shall, through VMVDU, furnish to the Bank by October 31, 1987, the architectural designs and standardized construction and financing contracts, all acceptable to the Bank, referred to in paragraph 1 of Schedule 7 to this Agreement.

Section 3.09. The Borrower shall cause BCR to enter into a PFI Participating Agreement with each PFI, under terms and conditions satisfactory to the Bank, which shall include, inter alia, the terms and conditions set forth in Schedule 8 to this Agreement.

Section 3.10. The Borrower shall review the interest rates to be charged pursuant to the provisions of Schedules 6, 7, 8 and 9 to this Agreement with the Bank on an annual basis and at the request of either the Borrower or the Bank, and, if necessary in the opinion of the Bank, revise such interest rates in a manner acceptable to the Bank.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, separate records and accounts adequate to reflect in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Project of the Implementing Agencies and all other departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) or shall cause the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year to be audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish or cause to be furnished to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;
- (iii) conduct a quarterly review of the records and



accounts referred to in paragraph (a) of this Section, and furnish a report of the same to the Bank promptly thereafter; and

- (iv) furnish or cause to be furnished to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) a change shall have been made in the Housing Intermediary Lending Policies Manual which shall have affected or will affect, materially and adversely, the making or repayment of Housing Credits, or the ability of any Housing Intermediary to carry out Part A of the Project;

(b) an act shall have been taken, or a resolution shall have been passed for the liquidation, dissolution or disestablishment of any Housing Intermediary;

(c) a change shall have been made in the PFI Lending Policies Manual which shall have affected or will affect, materially and adversely, the making or repayment of ISE Subloans, or the ability of any PFI to carry out Part C of the Project;

(d) an act shall have been taken, or a resolution shall have been passed, for the liquidation, dissolution or disestablishment of any PFI;

(e) an act shall have been taken, or a resolution shall have been passed for the liquidation, dissolution or disestablishment of ANDA;

(f) an act shall have been taken, or a resolution shall have been passed, for the liquidation, dissolution or disestablishment of ANTEL;

(g) any Implementing Agency shall have failed to perform

its respective obligations under the relevant Convenio;

(h) any Housing Intermediary shall have failed to perform its respective obligations under the relevant HI Participating Agreement; and

(i) any PFI shall have failed to perform its respective obligations under the relevant Participating Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General conditions, the following additional events are specified:

(a) any event specified in paragraphs (a), (c), (g), (h) or (i) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (b), (d), (e) or (f) of Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) that the Borrower through MIPLAN has entered into a Convenio with at least one Implementing Agency;

(b) that the Borrower has furnished to the Bank RU Procedures, acceptable to the Bank;

(c) that the Reconstruction Unit has been staffed in a manner acceptable to the Bank; and

(d) that the Borrower has furnished to the Bank the results of the Housing Finance Study and the Housing Credit Repayment Scheme, both satisfactory to the Bank.

Section 6.02. The following are specified as additional matters, within the meaning of 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that each Convenio entered into in compliance with Section 6.01 (a) has been duly authorized, executed and is legally binding upon the Borrower and MIPLAN and the relevant Implementing Agency in accordance with its terms; and

(b) that the Extraordinary Budget Procedures referred to in Section 3.03 (c) and the RU Procedures provided in compliance with Section 6.01 (b) are valid and legally binding upon the Borrower, MIPLAN and the Reconstruction Unit in accordance with their respective terms and that all necessary acts, consents and approvals to be performed by the Borrower, MIPLAN and the Reconstruction Unit in order to make effective such Extraordinary Budget Procedures and RU Procedures have been duly and validly performed and that no other acts, consents or approvals are required for such purposes.

Section 6.03. The date January 19, 1988, is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Minister of Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministerio de Planificacion y  
Coordinacion del Desarrollo  
Economico y Social  
Casa Presidencial  
San Salvador  
El Salvador

Cable address:

MIPLAN, Casa Presidencial  
San Salvador  
El Salvador

Telex:

301 - 30309

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

440098 (ITT)  
248423 (RCA) or  
64145 (WUI)

With copies to:

Ministerio de Hacienda  
3a Avenida Norte y 13 Calle Poniente  
San Salvador  
El Salvador

Cable address:

MINHACIENDA  
San Salvador  
El Salvador

Telex:

301 - 20647

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day, month and year first above written.

REPUBLIC OF EL SALVADOR

By /s/ Fidel Chavez Mena  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Rainer B. Steckhan  
Acting Regional Vice President  
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	Percentage of Expenditures to be Financed
(1) Housing Credits under Part A(1) of the Project	7,000,000	78% of amounts disbursed by a Housing Intermediary for each Housing Credit
(2) Civil Works:		
(a) under Part A(2) of the Project	450,000	78%
(b) under Part B of the Project	19,500,000	78%
(c) under Parts C(1) and C(2) of the Project	6,800,000	78%
(3) Goods:		
(a) under Part C of the Project, including installation of goods under Part C(3) of the Project	4,000,000	100% of foreign expenditures and 78% of local expenditures
(b) under Parts A(2), E and F of the Project	1,950,000	100% of foreign B expenditures and 78% of local expenditures
	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	Percentage of Expenditures to be Financed
(4) ISE Subloans under Part D of the Project	9,000,000	100% of amounts disbursed by a PFI for each ISE Subloan
(5) Training under Part E of the Project	2,400,000	100% of foreign expenditures and 78% of local expenditures
(6) Consultants' services and Studies under Part F of the Project	1,850,000	100% of foreign expenditures and 78% of local expenditures
(7) Project Management under Part F(3) of the Project	800,000	78% of Fixed-term key personnel costs
(8) Unallocated	11,250,000	

TOTAL

65,000,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term "Fixed-term Key Personnel Costs" means expenditures for salaries of Key Personnel (as hereinafter defined) with employment contracts, acceptable to the Bank, for a fixed-term not to exceed three years, or for such salaries paid pursuant to the renewal, on a basis acceptable to the Bank, of such employment contracts for fixed terms of up to one year per renewal; "Key Personnel" means the members, acceptable to the Bank, of the Reconstruction Unit and the social workers trained under Part E of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures under the Project prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$2,000,000, may be made in respect of Categories (2), (3), (5), (6) and (7) on account of payments made for expenditures but after May 15, 1987;

(b) payments made for expenditures under the Project, unless the Bank shall have received the bimonthly report referred to in Section 3.06 of this Agreement demonstrating progress, satisfactory to the Bank, with respect to implementing and managing the Project and other matters referred to in Section 3.06, during the period covered by such Report;

(c) unless otherwise agreed by the Bank, payments made for expenditures under the Project if the Borrower shall have changed the composition of the Reconstruction Unit without the prior approval of the Bank, or the Borrower shall have taken an act or passed a resolution for the dissolution or disestablishment of the Reconstruction Unit;

(d) unless otherwise agreed by the Bank, expenditures under Part A of the Project, unless the Bank shall have received evidence satisfactory to the Bank that the training of at least twenty (20) social workers under Part E of the Project has been completed;

(e) payments made on account of a Housing Credit under Part A of the Project unless the Bank shall have received evidence satisfactory to the Bank that: (i) a Convenio has been entered into between the Borrower through MIPLAN and VMVDU; (ii) a HI Participating Agreement has been entered into between VMVDU and the Housing Intermediary making such Housing Credit; and (iii) such Housing Intermediary has adopted the Housing Intermediary Lending Policies Manual;

(f) payments made on account of a Housing Credit under Part A of the Project unless the Bank shall have authorized withdrawals from the Loan Account with respect to such Housing Credit;

(g) expenditures under Part B.1 of the Project, unless the Bank shall have received evidence satisfactory to the Bank that a Convenio has been entered into between MIPLAN and MINED;

(h) expenditures under Parts B.2 and C.1 of the Project

unless the Bank shall have received evidence satisfactory to the Bank that a Convenio has been entered into between MIPLAN and MOP;

(i) expenditures under Part C.2 of the Project unless the Bank shall have received evidence satisfactory to the Bank that a Convenio shall have been entered into between MIPLAN and ANDA;

(j) expenditures under Part C.3 of the Project unless the Bank has received evidence satisfactory to the Bank that a Convenio has been entered into between MIPLAN and ANTEL;

(k) payments made on account of an ISE Subloan under Part D of the Project unless the Bank shall have received evidence satisfactory to the Bank that: (i) a Convenio has been entered into between MIPLAN and BCR; (ii) a PFI Participating Agreement has been entered into between BCR and the PFI making such ISE Subloan; and (iii) such PFI has adopted the PFI Lending Policies Manual;

(l) payments made on account of an ISE Subloan under Part D of the Project unless the Bank shall have authorized withdrawals from the Loan Account with respect to such ISE Subloan; and

(m) expenditures under Part E of the Project unless the Bank shall have received evidence satisfactory to the Bank that a Convenio has been entered into between MIPLAN and MINTRABAJO.

## SCHEDULE 2

### Description of the Project

The Project is part of the Reconstruction Program and its objectives are to assist the Borrower in: (a) carrying out its overall reconstruction program of rehabilitating, reconstructing and improving the areas damaged by the earthquake of October 10, 1986; (b) promoting urban growth in geologically safer areas (Apopa); (c) coordinating and mobilizing donor contributions for such activities; (d) setting up the institutional framework for reconstruction; (e) assisting low-income groups affected by such earthquake; (f) improving seismic construction standards, and regulation; and (g) designing an emergency plan to mitigate catastrophic damage.

The Project will be carried out in the Project Area and consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A: Housing Credits and Construction

(1) Credit. The provision of credit for:

(a) Reconstruction. On-site reconstruction of high density, low-income buildings (apartamentos populares) including about 3,000 dwellings and attendant street-level commercial units in the San Salvador metropolitan area; and

(b) Relocation. New construction of about 1,000 low-income dwellings in District 7 of Apopa.

(2) Model Housing Construction

Preparation of detailed engineering plans and construction of low-income housing models.

#### Part B: Schools and Public Buildings

(1) Schools. (a) Demolition of about 295 classrooms; (b) reconstruction, furnishing, and equipping of about 340 classrooms in 29 schools; and (c) new construction and furnishing and equipping of about 54 classrooms in 2 schools in Apopa;

(2) Public Buildings. (a) Demolition and on-site reconstruction in four locations of the office buildings for departments of the Borrower; and (b) construction of office building for a department of the Borrower on a new site; all such departments in (a) and (b) to be acceptable to the Bank.

Part C: Roads and Public Services

(1) Road Improvements. (a) Upgrading of approximately 10 kilometers of road between San Salvador and Apopa, including constructing storm drainage curbs and gutters, bus bays, partial resurfacing, underpinning of collapsed roadway, and extending street lighting; and

(b) Upgrading of approximately 6.5 kilometers of road between Apopa and San Jose de Las Flores (District 7), including eliminating hazardous bridge conditions, constructing drainage works and bus bays, paving and extending street lighting.

(2) Water Supply. Provision of water complementary to new dwelling construction in District 7, Apopa, by drilling 2 wells and construction of a storage tank with a chlorination plant.

(3) Telecommunications. Acquisition, installation and utilization of three mobile telephone exchanges, one with 2,000 telephone lines and two with 1,000 telephone lines each.

Part D: Informal Sector Enterprises

Provision of credit for raw materials, machinery and equipment, facilities, spare parts and other production inputs for Informal Sector Enterprises.

Part E: Training

Short-term, intensive training of about 2,000 persons per year over three years, in building trades skills and training of about 40 social workers in methods of organizing and assisting families in carrying out housing reconstruction and relocation.

Part F: Studies, Technical Assistance and Project Management

(1) Studies

The carrying out of studies:

- (a) to improve seismic construction standards, planning and regulation, including improvement of the existing building code;
- (b) to evaluate seismological data in order to demarcate high risk zones in the Project Area;
- (c) to update the national emergency plan to mitigate damage and reduce catastrophic losses;
- (d) to prepare detailed annual reconstruction plans and budgets, including methods for strengthening Project management and implementation capabilities;
- (e) to evaluate the damage to, and structural condition of, public buildings and to recommend architectural solutions, such as demolition of, or measures required to repair, such buildings; and
- (f) to develop a system for repayment of Housing Credits.

(2) Technical Assistance

The provision of technical assistance for:

- (a) developing financial models, contracts and architectural designs for carrying out Part A of the Project;
- (b) training IS Enterprises in organization, production management and marketing;
- (c) assisting FIGAPE, PRONAVIPO and other PFIs in strengthening their institutional capacity;
- (d) assisting the Implementing Agencies in carrying out the Project; and
- (e) improving earthquake monitoring stations of the Geotechnical Investigation Center.

(3) Project Management

Providing Project management expertise and support.

\* \* \* \* \*

The Project is expected to be completed by June 30, 1993.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each March 15 and September 15 beginning March 15, 1993 through March 15, 2007	2,165,000
On September 15, 2007	2,215,000

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\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not	0.80



more than sixteen years before maturity	
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

#### SCHEDULE 4

### Procurement and Consultants' Services for Parts A, B, C, E, and F of the Project

#### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, civil works and goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. To the extent practicable, contracts for procurement of vehicles under the Project shall be grouped in bid packages estimated to cost the equivalent of \$100,000 or more each.

##### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in El Salvador may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

##### Part C: Other Procurement Procedures

1. Goods under contracts estimated to cost the equivalent of \$100,000 or less and civil works under contracts estimated to cost the equivalent of \$1,000,000 or less, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Civil works under contracts estimated to cost the equivalent of \$250,000 or less, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. With the prior agreement of the Bank, minor civil works may be carried out by use of force account up to an aggregate amount not to exceed the equivalent of \$2,500,000.

##### Part D: Review by the Bank of Procurement Decisions

1. Prior review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more and each contract for civil works estimated to cost the equivalent of \$1,000,000 or more, and with respect to the first contract for goods and the first contract for civil works procured in accordance with the provisions of Part C, paragraph 1 of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out

of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. When payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c)(ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

In order to assist the Borrower and the Implementing Agencies in carrying out the Project, the Borrower shall employ, or cause to be employed, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Except as the Bank shall otherwise agree, payments out of the Special Account shall be made exclusively for Eligible Expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account may be made as follows:

(a) On the basis of a request or requests by the Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrower shall have requested.

(b) The Borrower shall furnish to the Bank requests for

replenishment of the Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the Loan Account and deposit into the Special Account such amounts as shall be required to replenish the Special Account with amounts not exceeding the amount of payments made out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by the Borrower out of the Special Account for which the Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, the Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for Eligible Expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into the Special Account shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the Loan allocated to the Eligible Categories, minus the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the Eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the Borrower shall, promptly upon notice from the Bank, deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. No further deposit by the Bank into the Special Account shall be made until the Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for Eligible Expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the Loan Account and immediate cancellation.

#### SCHEDULE 6

#### Terms and Conditions of Convenios and HI Participating Agreements

Part I: Conditions Applicable to All Convenios and HI

## Participating Agreements

1. Each Convenio between MIPLAN and the appropriate Implementing Agency set forth in Section 3.01 (b) of this Agreement, and each HI Participating Agreement between VMVDU and the appropriate Housing Intermediary, shall be a written agreement.

2. Each Convenio and HI Participating Agreement referred to in paragraph 1 of this Schedule, shall be acceptable to the Bank and shall establish the obligation of the Implementing Agency or Housing Intermediary, as the case may be:

(a) to utilize the proceeds of the Loan for purposes of carrying out the Project or a Housing Subproject;

(b) to procure civil works, goods and services required for the Project or for a Housing Subproject, in accordance with the provisions of Schedule 4 to this Agreement.

(c) to utilize the goods and services financed out of the proceeds of the Loan exclusively for the purposes of the Project or Housing Subproject;

(d) to comply with the auditing and record keeping requirements set forth in Article IV of this Agreement; and

(e) each Implementing Agency and Housing Intermediary shall exercise its respective rights with respect to the relevant Convenio or HI Participating Agreement in such a manner as to protect the interests of the Borrower and the Bank and achieve the purposes of the Loan.

3. Each agreement shall also include the right of the Borrower, through MIPLAN:

(a) to inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods, sites, services, works and construction financed out of the proceeds of the Loan and any relevant records and documents therefor;

(b) to obtain from the Implementing Agency or Housing Intermediary all such information as the Bank, through the Borrower, or the Borrower shall reasonably request related to the foregoing provisions; and

(c) to suspend or terminate the right of the Implementing Agency or Housing Intermediary to use the proceeds of the Loan upon failure of the Implementing Agency or Housing Intermediary to perform any of its obligations under the relevant Convenio or HI Participating Agreement.

## Part II: Conditions Applicable to HI Participating Agreements

1. VMVDU shall relend such funds from the proceeds of the Loan as are required by each Housing Intermediary to carry out Part A of the Project, on the following terms and conditions:

(a) Interest Rate. Each Housing Intermediary shall pay an interest rate, acceptable to the Bank and based on the results of the Housing Finance Study, on principal amounts withdrawn and outstanding from time to time.

(b) Term. Principal amounts withdrawn and outstanding and interest thereon shall be repaid in semiannual installments within 20 years, including a grace period of 5 years.

(c) Currency. The subloan shall be denominated in Colones and repaid in Colones.

2. VMVDU shall ensure that each Housing Intermediary shall comply with the provisions for making Housing Credits set forth in Schedule 7 to this Agreement.

3. Such agreement shall establish the Housing Intermediary's obligation: (a) to carry out the Housing Subproject with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and seismic building practices; and (b) to transfer to the Borrower funds received as payments of Housing Credits.

4. Authorization to make withdrawals from the Loan Account. Each Housing Credit shall receive an authorization of the Bank to withdraw funds from the Loan Account with respect to such Housing Credit, prior to such withdrawal. To this end, each Housing Intermediary shall provide to VMVDU for forwarding to the Bank, the following information:

- (a) a summary description of the Housing Subproject;
- (b) a description of the expenditures to be financed out of the proceeds of the Loan;
- (c) a description of the Housing Beneficiaries;
- (d) the terms and conditions of the Housing Credit; and
- (e) such other information as the Bank shall reasonably request.

Part III: Conditions Applicable to the Convenio with ANDA

MIPLAN shall transfer such funds from the proceeds of the Loan as are required by ANDA to carry out Part C.2 of the Project, on a grant basis.

Part IV: Conditions Applicable to the Convenio with ANTEL

MIPLAN shall relend such funds from the proceeds of the Loan as are required by ANTEL to carry out Part C.3 of the Project, on the following terms and conditions:

(a) Interest Rate: ANTEL shall pay a fixed rate of eight percent (8%) per annum, or such other rate as shall be acceptable to the Bank, on principal amounts withdrawn and outstanding from time to time.

(b) Term. Principal amounts withdrawn and outstanding and interest thereon shall be repaid in semiannual installments within 20 years, including a grace period of 5 years.

(c) Currency. The subloan shall be denominated in dollars and repaid in dollars.

Part V: Conditions Applicable to the Convenio with BCR

1. MIPLAN shall relend such funds from the proceeds of the Loan as are required by BCR to carry out Part D of the Project, on the following terms and conditions:

(a) Interest Rate: BCR shall pay a fixed rate of eight percent (8.0%) interest per annum, or such other rate as shall be acceptable to the Bank, on principal amounts withdrawn and outstanding from time to time.

(b) Term. Principal amounts withdrawn and outstanding and interest thereon shall be repaid in semiannual installments within 15 years, including a grace period of 5 years.

(c) Currency. The subloan shall be denominated in Colones and repaid in Colones.

2. BCR shall make funds available to each PFI for purposes of carrying out Part D of the Project pursuant to written PFI Participating Agreements acceptable to the Bank, including, inter

alia, the terms and conditions set forth in Schedule 8 to this Agreement.

3. BCR shall determine the financial condition of each PFI, on the basis of criteria acceptable to the Bank, and provide a report by June 30 of each year through completion of the Project, of such condition of each PFI for purposes of determining the eligibility of such PFI to participate in the carrying out of Part D of the Project. If BCR determines that any PFI is not of sound financial condition, it shall declare such PFI to be ineligible to participate, or continue to participate, in the Project, shall promptly so notify the Bank of its determination, and take such steps as are necessary to cease participation by such ineligible PFI in carrying out Part D of the Project.

4. Repayments to BCR of funds relented by BCR to PFIs under the Project shall be used to finance similar activities for similar purposes.

#### SCHEDULE 7

##### Terms and Conditions of Housing Credits

1. Each Housing Credit shall: (i) be processed in accordance with the Housing Intermediary Lending Policies Manual; (ii) finance Housing Subprojects constructed in accordance with specific architectural designs, acceptable to the Bank, as the same may be revised from time to time in a manner acceptable to the Bank; and (iii) be made pursuant to standardized construction and financing contracts, acceptable to the Bank.

2. The terms and conditions of each Housing Credit shall be acceptable to the Bank and shall include the following:

- (i) Amount. The principal amount of each Housing Credit shall not exceed the equivalent of \$6,000 per dwelling unit, multiplied by the number of dwelling units financed by the Housing Credit;
- (ii) Repayment Terms. Repayment of each Housing Credit shall be in accordance with the Housing Credit Repayment System provided to the Bank pursuant to Section 6.01 (d) of this Agreement, which shall ensure that:
  - (a) Repayment of principal and interest shall equal fifty percent (50%) in real terms (determined on a basis acceptable to the Bank and utilizing CPI), or such other percentage as shall be acceptable to the Borrower and the Bank, based on the results of the Housing Finance Study; and
  - (b) Repayment of principal and interest shall be in monthly installments which shall not exceed thirty percent (30%) of the Family Income of each Family Unit making such payments.

3. Each Housing Credit Contract shall be a written agreement, acceptable to the Bank, and shall include the Borrower's and Housing Intermediary's right:

- (i) to inspect, by themselves or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, and construction included in the Housing Subproject, the operation thereof, and any relevant records and documents;
- (ii) to obtain from the Housing Beneficiary all such information as the Bank, through the Borrower, or the Borrower or the Housing Intermediary reasonably request related to the foregoing provisions

and to the income of the Housing Beneficiary, and any relevant records and documents; and

- (iii) to suspend or terminate the right of the Housing Beneficiary to use the proceeds of the Housing Credit upon failure of the Housing Beneficiary to perform any of its obligations under the agreement for the corresponding Housing Credit.

#### SCHEDULE 8

##### Terms and Conditions of PFI Participating Agreements

The terms and conditions of each PFI Participating Agreement between BCR and a PFI, shall be satisfactory to the Bank, and shall include, inter alia, the following:

(a) credit received by the PFI from BCR to be used for ISE Subloans under Part D of the Project shall: (i) be denominated in Colones and repaid in Colones; (ii) bear a fixed interest rate of nine percent (9%) per annum, or such other rate as shall be acceptable to the Bank, on the principal amounts withdrawn and outstanding from time to time; and (iii) the total repayment period shall not exceed five years.

(b) BCR shall provide credit to the PFI sufficient to cover one hundred percent (100%) of the amount of each ISE Subloan;

(c) the PFI shall make each ISE Subloan to be financed from the proceeds of the Loan pursuant to a written ISE Subloan Contract, in accordance with Schedule 9 to this Agreement;

(d) the PFI shall exercise its rights with respect to each ISE Subloan Contract in such manner as to: (i) protect the interests of the Borrower, the Bank and BCR; (ii) comply with its obligations under the PFI Participating Agreement; and (iii) achieve the purposes of the Project;

(e) BCR shall have the right to suspend the right to the use of the proceeds of the Loan by the PFI upon the failure of such PFI to perform any of its obligations under the PFI Participating Agreement;

(f) the PFI shall comply with the auditing and record keeping requirements set forth in Article IV of this Agreement, and shall also provide to BCR, for forwarding to the Bank, annual financial statements audited in accordance with sound auditing practices, by independent auditors acceptable to the Bank; and

(g) Each ISE Subloan shall receive an authorization of the Bank to withdraw funds from the Loan Account with respect to such ISE Subloan, prior to such withdrawal. To this end, each PFI shall provide to BCR for forwarding to the Bank, the following information:

- (a) a description of the ISE Beneficiary;
- (b) a description of the expenditures to be financed from the proceeds of the Loan;
- (c) the terms and conditions of the ISE Subloan; and
- (d) such other information as the Bank shall reasonably request.

#### SCHEDULE 9

##### Terms and Conditions of ISE Subloans

1. Each ISE Subloan shall be processed in accordance with the PFI Lending Policies Manual.

2. The terms and conditions of each ISE Subloan shall be acceptable to the Bank and shall include the following:

- (i) Amount. The principal amount of each ISE Subloan shall not exceed the equivalent of \$8,000;
- (ii) Interest Rate. The interest rate shall be fixed and shall be fifteen percent (15%), or such other rate as shall be acceptable to the Bank, on principal amounts withdrawn and outstanding from time to time; and
- (iii) Amortization and Term. Repayment of ISE Subloans shall be made in monthly installments; the total repayment period shall not exceed 5 years.

3. Each ISE Subloan Contract shall be a written agreement, acceptable to the Bank, between a PFI and each ISE Beneficiary which shall:

- (i) establish the ISE Beneficiary's obligation: (a) to utilize the proceeds of the ISE Subloan for carrying out the business of the respective IS Enterprise; and (b) to procure all goods and materials financed out of the proceeds of an ISE Subloan through normal domestic commercial channels from responsible suppliers at a reasonable price, taking into consideration such other relevant factors as time of delivery, efficiency and reliability of the goods and any spare parts thereof; and
  - (ii) establish the Borrower's and the PFI's right:
    - (1) to inspect, by themselves or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, and construction included by the ISE Subloan, the operation thereof, and any relevant records and documents;
    - (2) to obtain from the ISE Beneficiary all such information as the Bank, through the Borrower, or the Borrower or the PFI shall reasonably request related to the foregoing provisions and to the administration, operation and financial condition of the ISE Beneficiary, and any relevant records and documents; and
    - (3) to suspend or terminate the right of the ISE Beneficiary to use the proceeds of the ISE Subloan upon failure of the ISE Beneficiary to perform any of its obligations under the agreement for the corresponding ISE Subloan Contract.
- 