

**CONFORMED COPY**

**LOAN NUMBER 7084-ES**

# **Loan Agreement**

**(Earthquake Emergency Reconstruction and Health Services Extension Project)**

**between**

**REPUBLIC OF EL SALVADOR**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated January 11, 2002**

**LOAN NUMBER 7084-ES**

**LOAN AGREEMENT**

AGREEMENT, dated January 11, 2002, between the REPUBLIC OF EL SALVADOR (the Borrower) and the 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 (the Project), 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 for Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

- (a) “AIDS” means Acquired Immune Deficiency Syndrome;
- (b) “Beneficiary Team” means a team of physicians, nurses, nurse auxiliaries and community health promoters of a SIBASI which has signed a performance agreement or arrangement in accordance with the procedures of the Operational Manual and is selected in accordance with the procedures of the Operational Manual;
- (c) “Earthquakes” means the earthquakes that occurred in the Borrower’s territory in January and February 2001;
- (d) “Earthquake-affected Areas” means the areas located within the Borrower’s departments listed in the letter from the Borrower to the Bank dated October 18, 2001;
- (e) “Eligible Categories” means Category (1) through (4), set forth in the table in Part A.1 of Schedule 1 to this Agreement;
- (f) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Loan

allocated from time to time to the Eligible Categories;

(g) “Health Service Provider” means an NGO, a private provider, a foundation, or a cooperative on its own or in association with a municipality or with the Borrower’s Social Security Institute, selected in accordance with the Operational Manual for implementation of Part B.1 of the Project;

(h) “Health Service Provider Agreement” means any of the agreements referred to in Section 3.01 (d) of this Agreement;

(i) “HIV” means Human Immune-deficiency Virus;

(j) “Institutional Improvement and Decentralization Strategy” means the strategy referred to in Section 3.06 of this Agreement;

(k) “Management Agent” means the consulting firm referred to in Section 3.01 (c) of this Agreement;

(l) “Management Agent Agreement” means the agreement referred to in Section 3.01 (c) of this Agreement;

(m) “Model Health Service Provider Agreement” means the model agreement referred to in Section 3.03 (d) of this Agreement;

(n) “MOH” means *Ministerio de Salud y Asistencia Social*, the Borrower’s Ministry of Health and Social Assistance;

(o) “NGO” or “non-governmental organization” means a non-governmental organization established and operating in the Borrower’s territory;

(p) “Northern Zone” means the area comprising the Borrower’s municipalities listed in the letter from the Borrower to the Bank dated October 18, 2001 and any other municipality as the Bank may agree;

(q) “Operational Manual” means the manual referred to in Section 3.03 of this Agreement;

(r) “PCU - Part A” means the unit referred to in Section 3.01 (b) (i) (A) of this Agreement;

(s) “PCU – Parts B-C-D” means the unit referred to in Section 3.01 (b) (i) (B) of this Agreement;

(t) “Performance Incentives” means the performance incentives to be provided by MOH to Beneficiary Teams under a program to be implemented in the Earthquake-affected Areas and the Northern Zone following the procedures of the Operational Manual;

(u) “Performance Indicators” means the indicators set forth in a letter from the Borrower to the Bank of even date herewith;

(v) “Project Management Report” means each report prepared in accordance with Section 4.02 (b) of this Agreement;

(w) “Project Units” means collectively the PCU – Part A and the PCU – Parts B-C-D;

(x) “SIBASI” means a health district to be established by MOH for the delivery of primary health care services by its health centers and posts located in one or more municipalities, and to be managed by a SIBASI director; and

(y) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

## **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 this Agreement, an amount equal to one hundred and forty two million six hundred thousand dollars (\$142,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. 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, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be April 30, 2007 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. The Borrower agrees that on or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and

pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 said 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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

Section 2.10. The Minister of Health and Social Assistance and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section

2.02 of this Agreement and Article V of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project and, to this end, shall carry out the Project, through MOH, with the assistance of the Project Units, and the Health Service Providers in respect of Part B.1 of the Project, all with due diligence and efficiency and in conformity with appropriate health, economic, technical, administrative, financial, engineering and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall establish, operate and maintain, during the implementation of the Project:

(i) two project coordination units:

(A) one to assist in the implementation of Part A of the Project; and

(B) the other to assist in the implementation of Parts B, C and D of the Project; and

(ii) one financial and budgetary unit for all Parts of the Project,

all with functions and responsibilities satisfactory to the Bank, at all times headed by Project coordinators and assisted by staff in adequate numbers, all with qualifications and experience acceptable to the Bank.

(c) The Borrower shall, through MOH, enter into an agreement with a consulting firm acceptable to the Bank (the Management Agent) under terms and conditions satisfactory to the Bank which shall include, *inter alia*, the specific responsibilities of such firm in the contracting and supervision of the works included in Part A of the Project.

(d) The Borrower shall, through MOH, enter into an agreement with each Health Service Provider under terms and conditions satisfactory to the Bank and substantially in accordance with the terms of the Model Health Service Provider Agreement set forth in the Operational Manual which shall include, *inter alia*, the performance indicators and other requirements applicable to the implementation of Part B.1 of the Project.

(e) The Borrower shall exercise its rights and carry out its obligations under the Management Agent Agreement, and each of the Health Service Provider Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, suspend, waive, terminate or fail to enforce the Management Agent Agreement, or any

Health Service Provider Agreement, or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to include, *inter alia*:

- (a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement and financial requirements thereof);
- (b) frameworks for environmental impact assessment and for resettlement, including the compensation and rehabilitation requirements, of people involuntarily displaced due to the taking of land and other assets, all for the rehabilitation or construction of hospitals under Part A.2 of the Project;
- (c) the criteria for the selection of the Health Services Providers under Part B.1 of the Project and the requirements for the delivery of such services, including the payment system thereof;
- (d) a model agreement for contracting with Health Service Providers to obligate them to carry out their responsibilities under Part B.1 of the Project; and
- (e) the procedures for the provision of Performance Incentives and the selection criteria for the Beneficiary Teams.

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

Section 3.04. The Borrower shall take all such actions as shall be necessary to ensure that activities under Part A of the Project shall be selected, approved and implemented in accordance with the Operational Manual. For these purposes the Borrower shall not commence works under Part A. 2 of the Project unless and until the environmental impact assessment and the involuntary resettlement plan, if needed, prepared pursuant to the Operational Manual, have been approved by the Bank, and the actions provided therein have been adequately implemented for the relevant activities.

Section 3.05. Without limitation to its obligations under Section 3.01 (a) of this Agreement, the Borrower shall, until the completion of the Project, operate and maintain, under terms and conditions satisfactory to the Bank, in a commercial bank acceptable to the Bank, a revolving fund, in dollars with a quarterly balance of counterpart contributions equivalent to the funding requirements for the Project in the next three months as provided in the annual budget

referred to in Section 3.07 (b) to this Agreement.

Section 3.06. The Borrower shall adopt, and thereafter implement, an institutional improvement and decentralization strategy, acceptable to the Bank, which shall consist, inter alia, of measures: (a) to gradually reduce MOH's departmental offices; (b) to define the allocation of existing administrative staff of MOH to the SIBASIs without any increase in MOH's administrative budget; (c) to monitor the performance of the services provided by the SIBASIs including, inter alia, by entering into performance agreements or arrangements with the SIBASIs directors, which agreements or arrangements specify quality and coverage benchmarks; (d) to evaluate the performance of Health Service Providers; (e) to develop and carry out health plans by regions, or clusters of departments and/or SIBASIs; and (f) to set and use benchmarks for implementation of all such measures.

Section 3.07. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and yearly thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date including a budget for the carrying out of the Project in the succeeding calendar year; and

(c) (i) review with the Bank: (A) shortly after each such report's preparation the report referred to in paragraph (b) of this Section and any changes in the Project implementation arrangements that might be warranted; and (B) by not later than twenty four months after the Effective Date, the progress made in the implementation of the Institutional Improvement and Decentralization Strategy; and

(ii) take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said reports and the Bank's views on the matter.

Section 3.08. For the purposes of Section 9.07 of the General Conditions, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project;



and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including as part of the information to be provided in each such report, a management letter concerning the Borrower's internal controls and a special report on compliance with the procurement provisions set forth in Schedule 4 to this Agreement; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Project Management Reports or 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than three months after the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

Section 4.03. The Borrower shall:

- (a) during the period of Project implementation have: (i) the technical performance of the works carried out under Part A of the Project; and (ii) the payments made for works and services provided under such Part of the Project, audited on a quarterly basis under terms of reference satisfactory to the Bank and by auditors acceptable to the Bank; and
- (b) furnish to the Bank not later than two months after the end of each quarter the resulting audit reports.

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. 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) the Borrower has adopted the Operational Manual;
- (b) the Borrower has strengthened the financial management system referred to in Section 4.01 of this Agreement in a manner satisfactory to the Bank including in particular that the Borrower has established and staffed the financial and budgetary unit of the Project Units and has hired the financial auditors for the Project;
- (c) the Borrower has strengthened the procurement management capabilities of MOH in a manner satisfactory to the Bank, including in particular, that the Borrower has employed two procurement experts for the Project;
- (d) the Borrower has established the Project Units and has appointed therein their coordinators and heads of the monitoring and evaluation subunits;
- (e) a firm has been prequalified as Management Agent and a draft invitation letter has been prepared;
- (f) the Borrower has completed the environmental impact assessment and preliminary designs for at least two hospitals in accordance with the procedures set forth in the Operational Manual; and
- (g) the revolving fund referred to in Section 3.05 of this Agreement has been established and an amount of \$1,000,000 has been deposited therein.

Section 5.02. The date April 11, 2002 is hereby specified for the purposes of Section

12.04 of the General Conditions.

## ARTICLE VI

### Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Blvd. de los Héroes  
San Salvador, El Salvador

Facsimile:

226-2621

For the Bank:

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)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in San Salvador, El Salvador, as of the day and year first above written.

REPUBLIC OF EL SALVADOR

By /s/ Juan José Daboub

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Donna Dowsett-Coirolo

Acting Regional Vice President  
Latin America and the Caribbean

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

A. General

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:

<u>Category</u>	Amount of the Loan Allocated (Expressed in (Dollars))	% of Expenditures to be Financed
(1) Part A of the Project		
(a) Works	60,100,000	90%
(b) Goods	26,700,000	100% of foreign expenditures, and 87% of local expenditures
(c) Incremental Operating Costs	100,000	50%
(d) Consultants' Services (excluding audits)	11,200,000	100% of foreign expenditures, and 87% of local expenditures
(e) Training	200,000	87%

(2)	Parts B, C and D of the Project		
	(a) Goods (other than under Category (4) below)	500,000	100% of foreign expenditures, and 87 % of local expenditures
	(b) Pharmaceuticals and materials for Part B of the Project	3,100,000	100% of expenditures until withdrawals under this Sub-category have reached an aggregate amount of \$1,030,000; 60% until withdrawals under this Sub-category have reached an aggregate amount of \$2,070,000; and 30% thereafter
	(c) Pharmaceuticals and materials for Part C.1 of the Project	2,000,000	100% of expenditures until withdrawals under this Sub-category have reached an aggregate amount of \$666,660; 60% until withdrawals under this Sub-category have reached an aggregate amount of \$1,333,340; and 30% thereafter
	(d) Incremental Operating Costs (other than under Category (3) below)	700,000	50%
	(e) Consultants' Services for Part B of the Project (other than under Subcategory (f) and Category (4) below)	6,900,000	100% of foreign expenditures and 87% of local expenditures
	(f) Health Service Provider Fees	5,300,000	80%
	(g) Training for Part B	700,000	87%

	of the Project (other than under Category (4) below)		
	(h) Consultants' Services, training and goods for Part C.1 of the Project (other than under Category 2 (a) above)	4,100,000	80%
	(i) Consultants' Services, training and goods for Part C.2 of the Project (other than under Category 2 (a) above)	5,500,000	80%
(3)	Audits		
	(a) under Part D.1 of the Project	150,000	90% of expenditures until withdrawals under this Category have reached an aggregate amount of \$50,000; 60% until withdrawals under this Category have reached an aggregate amount of \$100,000; and 30% thereafter
	(b) Technical Audits	800,000	80%
(4)	Goods, consultants' services and training for Part B.4 of the Project	400,000	80%
(5)	Front end fee	1,426,000	Amount due under Section 2.04 of this Agreement
(6)	Unallocated	12,724,000	
	TOTAL	<u>142,600,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in dollars or 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;

(c) the term “Training” means expenditures (other than for consultants’ services) incurred in connection with the provision of training under the Project, including the reasonable travel cost and per-diem of the trainees;

(d) the term “Incremental Operating Costs” means the cost of maintenance of office equipment, communication services, water, electricity and office supplies;

(e) the term “Technical Audits” means expenditures for services to carry out the technical and financial audits of Part A of the Project referred to in Section 4.03 of this Agreement; and

(f) the term “Health Services Provider Fees” means the fees paid to a Health Services Provider to cover its incremental salaries, supplies, minor equipment, pharmaceuticals and transportation costs related to the provision of the health and nutrition services.

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

(a) payments made for expenditures prior to the date of this Agreement except that withdrawals in an aggregate amount not exceeding \$14,000,000 may be made on account of payments made for expenditures incurred within twelve months before that date but after September 24, 2001;

(b) payments made for expenditures for goods, and works for construction or rehabilitation, as the case may be, of each hospital under Part A.2 of the Project unless:

(i) the Borrower has engaged the services of the Management Agent;

(ii) the Bank is satisfied with: (A) the respective technical, economic and financial feasibility studies for such hospital; and (B) the Borrower’s compliance with the environmental impact assessment and involuntary resettlement requirements set forth in the Operational Manual in respect of such hospital;

(iii) the construction proposal for the respective hospital has been granted the required environmental license; and

(iv) the land required for construction of new hospitals is owned by the



Borrower and is free of occupants;

(c) payments made for expenditures Health Service Providers fees under Part B.1 of the Project unless the respective Health Service Provider Agreement, have been signed;

(d) payments made for expenditures pharmaceuticals, and for consultants' services, training and goods under Part C.1 of the Project unless the Institutional Improvement and Decentralization Strategy has been adopted by MOH in form and substance satisfactory to the Bank; and

(e) payments made for expenditures under Part C.2 of the Project unless the following actions have been taken in form and substance satisfactory to the Bank:

- (i) the Borrower has furnished to the Bank the results of the baseline survey for monitoring and evaluation of the Project referred to in Part D.2 of the Project;
- (ii) the Borrower has signed at least five Health Service Provider Agreements to provide health and nutrition services to at least 75,000 people in the aggregate;
- (iii) at least three SIBASIs in Earthquake-affected Areas are operating in accordance with the terms of the Institutional Improvement and Decentralization Strategy, and the related performance agreements or arrangements have been signed between MOH's authorities at the central level and the SIBASIs directors;
- (iv) MOH has adopted indicators satisfactory to the Bank to evaluate the performance of its SIBASIs; and
- (v) at least one regional plan for the delivery of coordinated health services within a cluster of departments and/or SIBASIs has been prepared in accordance with the requirements of the Institutional Improvement and Decentralization Strategy and is being implemented.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower for:

- (a) goods costing less than \$250,000 equivalent per contract;
- (b) works costing less than \$5,000,000 equivalent per contract;
- (c) consulting services from firms costing less than \$100,000 equivalent per

contract;

(d) individual consultant services costing less than \$50,000 equivalent per contract;  
and

(e) Training and Incremental Operating Costs.

B. Special Account

1. The Borrower shall open and maintain in dollars a special deposit account in its Central Bank, on terms and conditions satisfactory to the Bank.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and

accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawals or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A**  
**to**  
**SCHEDULE 1**

**Operation of Special Account**  
**When Withdrawals Are Not Made**  
**On the Basis of Project Management Reports**

1. For the purposes of this Annex, the term "Authorized Allocation" means an amount equal to \$7,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$3,800,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all

outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$25,500,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

**Annex B  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Made  
On the Basis of Project Management Reports**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special

Account's Eligible Categories.

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$20,000,000.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are: (a) to reconstruct and improve the Borrower's health sector infrastructure damaged or destroyed by the Earthquakes; (b) to extend the coverage of the Borrower's health and nutrition services; and (c) to strengthen the institutional capacity of MOH to develop and implement policies and priority programs for the health sector.

The Project 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: Rehabilitation and Construction of MOH Hospitals in the Earthquake-affected Areas

1. Preparation of feasibility designs for the construction or rehabilitation of the hospitals listed in Part A.2 of the Project.

2. (a) Rehabilitation of the following MOH Hospitals: San Juan de Dios in San Miguel, Santa Teresa in Zacatecoluca, and San Pedro in Usulután.

(b) Construction of the following MOH hospitals: Cojutepeque in Cuscatlán, Maternidad Nacional in San Salvador, Santa Gertrudis in San Vicente and San Rafael in La Libertad.

(c) Equipping of the hospitals included in Parts A.2 (a) and (b) above.

(d) Supervision of the works included in 2 (a) and (b) above.

3. Provision of technical assistance for the development of a program of preventive

maintenance of MOH hospitals, including the drafting of protocols, the inventory of equipment, the preparation of maintenance manuals and the training of staff on such preventive maintenance program.

#### Part B: Health and Nutrition Services in Earthquake-affected Areas and the Northern Zone

1. Provision of health and nutrition services by Health Service Providers in the Northern Zone and training to improve the skills of the Providers' staff in the provision of such services.
2. Strengthening of the capacity of MOH to deliver primary care services in the Earthquake-affected Areas through the provision of drugs and medical supplies.
3. Strengthening of MOH's capacity:
  - (a) for the organization and delivery of basic health and nutrition services, including training of MOH's staff;
  - (b) to manage contract with Health Services Providers, and performance agreements or other arrangements with its SIBASIs; and
  - (c) to monitor and evaluate the performance of health and nutrition services provided by MOH and the Health Service Providers.
4. Implementation of a pilot program for the provision of Performance Incentives to Beneficiary Teams.

#### Part C: MOH's Institutional Improvement for Policy and Program Development

1. Provision of technical assistance, equipment and other goods, and training to MOH as required to carry out the Institutional Improvement and Decentralization Strategy:
  - (a) to develop regulations and norms to implement national laws and policies on managing toxic medical waste, assist in maintaining the waste management program currently applied in hospitals in the Metropolitan Area of San Salvador, and apply similar procedures in the remainder of MOH hospitals;
  - (b) to design and implement a communication campaign to support coverage extension and institutional improvement, including those required for the prevention of HIV/AIDS/sexually transmitted diseases and dengue and other diseases and the provision of pharmaceuticals required thereto;
  - (c) to develop a laboratory-based surveillance system as part of a national entomology surveillance and control program, foster community participation in the elimination

or control of the larval habitats of the mosquito *Aedes Aegypti*, which carries *dengue*, and train physicians and other health care providers in early recognition of the disease; and

(d) to strengthen MOH's institutional capacity to prevent and control HIV/AIDS/sexually transmitted diseases through the establishment of confidential counseling and testing centers, the installation of a national epidemiological surveillance system and the creation of a confidential registry of cases (including through staff training related thereto).

2. Provision of technical assistance, equipment and training to MOH:

(a) to develop a human resource strategy and improve MOH's human resource management skills through the development of norms, instruments and procedures to be applied at the central and SIBASIs level;

(b) to strengthen the institutional capacity of MOH's central level offices to manage environmental health and its central laboratory and assist in decentralizing some of MOH's functions to its local level health units; and

(c) to upgrade MOH's hardware and software, and provide training related thereto, and to improve, inter alia, patient scheduling, medical history and record management, and cost accounting.

#### Part D: Project Management

Carrying out of:

1. the audits of the financial accounts referred to in Section 4.01 of this Agreement and the technical audits referred to in Section 4.03 of this Agreement; and

2. including the carrying out of baseline and endline household surveys as required for input in the evaluation of the Project.

\* \* \*

The Project is expected to be completed by October 31, 2006.

### **SCHEDULE 3**

#### **Amortization Schedule**

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15 Beginning May 15, 2007 through May 15, 2018	4.17%
On November 15, 2018	4.09%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph 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 principal amount of the Loan to an Approved



Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

## **SCHEDULE 4**

### **Procurement**

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

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

##### (a) Prequalification

Bidders for works estimated to cost \$10,000,000 equivalent or more shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

##### (b) Grouping of Contracts

To the extent practicable, contracts for: (i) works, and (ii) goods, shall be grouped in bid

packages estimated to cost respectively \$5,000,000 and \$250,000 equivalent or more each.

(c) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$5,000,000 equivalent per contract, up to an aggregate amount not to exceed \$8,300,000 equivalent, and medical instruments equipment and other goods estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$6,100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines, using standard bidding documents satisfactory to the Bank, and the following provisions:

(a) Bids shall be submitted in one single envelope, and the name of each bidder and the total amount of each bid, as well as any alternative proposals, if they have been requested or permitted, shall be read aloud when opened.

(b) Contracts shall be awarded to the bidder whose bid has been determined to be the lowest evaluated bid, such evaluation to be based on price and, whenever appropriate, to also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid. The weighing of the economic and technical proposals will not be allowed.

(c) Bidders will not be required to be registered in the Borrower's contractors registry as a condition of bid participation.

(d) The bidding process shall not be discontinued upon the filing of administrative complaint procedures requesting the review of bidding decisions.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to:

(a) each contract procured in accordance with the procedures referred to in Part B.1 hereof; and

(b) the first two contracts for goods and works procured each year in accordance with the procedures referred to in Part C.1 hereof, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services, shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services for the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

#### Part C: Other Procedures for the Selection of Consultants

##### 1. Least-cost Selection

Services for assignments of standard and critical nature such as technical assistance, auditing, supervision and training estimated to cost less than \$100,000 equivalent per contract and not exceeding in the aggregate \$12,000,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

##### 2. Individual Consultants

Specialized advisory services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines and not exceeding in the aggregate \$5,000,000 equivalent, shall be procured under contracts awarded to individual consultants selected by comparison of qualifications of at least three candidates and employed in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

#### Part D: Review by the Bank of the Selection of Consultants

##### 1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

##### 2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than

the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for:

- (i) the employment of individual consultants estimated to cost the equivalent of \$50,000 or more; and
- (ii) the employment of consulting firms in accordance with the procedures set forth in Section II, Part C.1 of this Schedule,

the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(d) With respect to each contract for the employment of individual consultants estimated to cost less than the equivalent of \$50,000, the terms of reference of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

### Part E: Special Provisions

Foreign consultants shall not be required to be registered in the Borrower's consultants' registry as a condition of participation in the selection process. In the selection of consultants, the short list of consultants shall consist of a minimum of three and maximum of six firms.

