

CONFORMED COPY

LOAN NUMBER 8048-SV

Loan Agreement

(Public Finance and Social Progress Development Policy Loan)

between

THE REPUBLIC OF EL SALVADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 27, 2011

LOAN AGREEMENT

Agreement dated July 27, 2011, entered into between the Republic of El Salvador (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of one hundred million Dollars (US\$100,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal or exceed ten million Dollars (US\$10,000,000) shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.
- 2.09. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action

taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the appropriateness of the Borrower's macroeconomic policy framework.
- 5.02 Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on December 2, 2012.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Finance.

- 6.02. The Borrower's Address is:

Ministerio de Hacienda
Boulevard de los Héroes 1231
San Salvador, El Salvador

Facsimile: (503) 2225-7491; (503) 2244-6419

- 6.03. The Bank's Address is:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF EL SALVADOR

By /s/ Francisco Altschul Fuentes
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ C. Felipe Jaramillo
Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower, through DGT, entered into separate agreements with: (i) MINSAL; (ii) MAG; and (iii) FSV, respectively on December 16, 21 and 23, 2009, whereby said ministries and agencies may use the P@GOES to collect electronic payments, in order to achieve an improved efficiency in tax collection.
2. The Borrower, through Decree No. 233 dated December 16, 2009, published in its *Diario Oficial*, Tome 385, No. 239 of December 21, 2009, has strengthened DGT's tax recovery instruments by: (i) extending the period for processing administrative claims of late tax payments from up to 10 days to up to 100 days (depending on certain conditions established in the reformed Article 270 of *Código Tributario*); and (ii) allowing DGT to withhold a certain percentage of the earnings of wage earners and the Borrower's service providers which are in arrears on its tax payments (as established in the reformed Article 273-A of *Código Tributario*).
3. DGA, through (i) an official letter issued by the head of its *Unidad de Gestión de Riesgos* (Risk Management Unit), dated June 1, 2010 and (ii) the approval by its General Director of the technical procedure described in the document entitled "*Operatividad de la Unidad de Gestión de Riesgos*" (Operativity of the Risk Management Unit), dated October 19, 2010; and DGII, through (i) the approval by an internal committee of the MH of the *Acta de Recepción de Programas de Migración/Replicación en Ambiente de Producción* (Reception Deed of the Programs of Migration/Replication in the Production Environment), dated September 16, 2009, and (ii) the adoption by the head of its *Unidad de Selección de Casos* (Case Selection Unit) of the *Sistema de Selección y Administración de Casos* (Case Selection Management System), dated August 18, 2010, have confirmed that said directorates have strengthened their respective capacity to fight tax evasion through the implementation of systems that will enable the same to select and thereafter manage the cases to be audited by the Borrower's tax authorities.
4. DGII, through an official letter issued by the head of its *Sección Control de Omisos* (Tax Omissions Control Section), dated March 31, 2011 and the adoption of technical manuals entitled, respectively, "*Detección, Verificación y Control Declaraciones Extemporáneas*" (Detection, Verification and Control of Late Declarations), dated July 29, 2010, and "*Detección, Verificación de Control de Omisos y Diferencias*" (Detection, Verification and Control of Tax Omissions and Differences), dated September 6, 2010, has confirmed that in 2010 it started the implementation of new internal processes to monitor and penalize non tax filers and stop tax filers.
5. The Borrower: (a) through DGT, has adopted a system that enables it to carry out the daily financial monitoring and control of all Agencies' bank accounts in the Borrower's territory, as evidenced by authorization No. 001/2010 of DGT, dated June 23, 2010; and (b) as a result of the implementation of the above mentioned system, the Borrower has, as

- of March 31, 2011, attained 100% daily financial monitoring and control coverage of the bank accounts mentioned in (a), as evidenced by the letters issued by the *Departamento Control de Saldos Bancarios* (Bank Accounts Control Department) of DGT, dated, respectively, April 1 and April 11, 2011.
6. The Borrower, through MOPTVDU, CEPA, FISDL and CNR has entered into a cooperation agreement with CASALCO and FUNDE, dated August 31, 2009, which created the Citizen Observatory of Public Works (*Observatorio Ciudadano de la Obra Pública*), for the purpose of, *inter alia*, preventing corruption by increasing the transparency in public management and increasing the collaboration amongst citizens, entrepreneurs and the Borrower.
 7. The Borrower's Assembly, through Decree No. 534 dated December 10, 2010, has approved the *Ley de Acceso a la Información Pública* (Law on Access to Public Information), which aims at improving transparency and access to public information.
 8. The Borrower's Assembly, through Decree No. 645 dated March 7, 2011, has approved the *Ley de Igualdad, Equidad y Erradicación de la Discriminación contra las Mujeres* (Law on Equality, Equity and Eradication of Discrimination against Women), which aims at fighting discrimination against women and promoting gender equality.
 9. The Borrower's Assembly, through Decree No. 520 dated November 25, 2010, has approved the *Ley Especial Integral para una Vida Libre de Violencia para las Mujeres* (Special Integral Law for a Life Free of Violence for Women), duly published in the *Diario Oficial*, Tome No. 390 of January 4, 2011, which aims at protecting women from violence.
 10. The Borrower, through the *Comité Intersectorial del Sistema de Protección Social Universal* (Social Protection System Intersectoral Committee), has implemented a cash transfer system for eligible individuals aged 70 years or older in the 32 poorest municipalities located within the Borrower's territory, in accordance with the *Guía Operativa Pensión Básica Universal Para la Persona Adulta Mayor* (Universal Basic Pension for Elderly People Operative Guide), dated November 2009 (which guide was duly approved by the Borrower's *Comité Intersectorial del Sistema de Protección Social Universal* on January 29, 2010), as evidenced by the certification issued by the *Subsecretaría Técnica de la Presidencia de la República* (Technical Subsecretariat of the Presidency of the Republic) on April 15, 2011.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan (except for amounts required to pay the Front-end Fee) is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

Allocations	Amount of the Loan Allocated (expressed in Dollars)
(1) Single Withdrawal Tranche	99,750,000
(2) Front-end Fee	250,000
TOTAL AMOUNT	100,000,000

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the appropriateness of the Borrower's macroeconomic policy framework.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is December 31, 2012.

SCHEDULE 2

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 have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each February 15 and August 15 Beginning August 15, 2016 through February 15, 2041	2%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3.
 - (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued

on or after the respective Principal Payment Date, the provisions of such 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. "Agency" means an agency and/or entity totally or partially controlled and/or directly or indirectly owned by the Borrower.
2. "CASALCO" means *Cámara Salvadoreña de la Industria de la Construcción*, the Salvadorian Chamber of Building Industry.
3. "CEPA" means *Comisión Ejecutiva Portuaria Autónoma*, the Borrower's Port Executive Autonomous Commission.
4. "CNR" means *Centro Nacional de Registro*, the Borrower's National Registry Center.
5. "*Código Tributario*" means the Borrower's Tax Code.
6. "*Diario Oficial*" means the Borrower's official gazette.
7. "DGA" means *Dirección General de Aduanas*, the Borrower's Customs Directorate.
8. "DGII" means *Dirección General de Impuestos Internos*, the Borrower's Internal Revenue Administration Directorate.
9. "DGT" means, the Borrower's *Dirección General de Tesorería*, the Borrower's Treasury Directorate.
10. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials

667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
11. "FISDL" means *Fondo de Inversión Social para el Desarrollo Local*, the Borrower's Social Investment Fund for Local Development.
 12. "FSV" means *Fondo Social para la Vivienda*, the Borrower's Social Fund for Housing.
 13. "FUNDE" means *Fundación Nacional para el Desarrollo*, the National Foundation for Development.
 14. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

15. “MAG” means *Ministerio de Agricultura y Ganadería*, the Borrower’s Ministry of Agriculture and Stockbreeding.
16. “MH” means *Ministerio de Hacienda*, the Borrower’s Ministry of Finance.
17. “MINSAL” means *Ministerio de Salud Pública*, the Borrower’s Ministry of Public Health.
18. “MOPTVDU” means *Ministerio de Obras Públicas, Transporte, Vivienda y Desarrollo Urbano*, the Borrower’s Ministry of Public Works, Transport, Urban Housing and Development.
19. “P@GOES” means the electronic payment system allowing to make electronic payments to public institutions, regulated by the *Manual Técnico de Pago Electrónico de Entidad Colectora* (Collecting Entity Technical Manual for Electronic Payment), dated June 9, 2005.
20. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated April 12, 2011 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
21. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. *Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”