

**CONFORMED COPY**

**LOAN NUMBER 7916-SV**

# **Loan Agreement**

**(Local Government Strengthening Project)**

**between**

**REPUBLIC OF EL SALVADOR**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated July 19, 2010**

## **LOAN AGREEMENT**

Agreement dated July 19, 2010, between the REPUBLIC OF EL SALVADOR (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

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

### **ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of eighty million Dollars (US\$80,000,000), 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”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are February 15<sup>th</sup> and August 15<sup>th</sup> in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 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 eight million Dollars (\$8,000,000) 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.

### **ARTICLE III — PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower, through SAE, shall: (a) carry out Part A of the Project, with the participation of Municipalities and FISDL, and the assistance of ISDEM, pursuant to the provisions of the Municipal Framework Agreements and Implementation Agreement; (b) cause ISDEM to carry out: (i) Parts B, D.2, D.3 and D.4 of the Project with the assistance of FISDL, (ii) those activities under part D.1 of the Project pertaining to ISDEM, and (iii) Part C of the Project with the assistance of SSDT, all pursuant to the provisions of the Implementation Agreement; and (c) cause FISDL to carry out those activities under Part D.1 of the Project pertaining to FISDL, pursuant to the provisions of the Implementation Agreement, all in accordance with the provisions of Article V of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

#### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01. The Additional Events of Suspension consists of the following:
- (a) FISDL or ISDEM shall have failed to comply with any of its pertinent obligations under the Implementation Agreement.
  - (b) The FISDL Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower and/or FISDL to perform any of their respective obligations under this Agreement and/or the Implementation Agreement (as the case may be).
  - (c) The ISDEM Legislation has been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Bank, materially and adversely the ability of the Borrower and/or ISDEM to perform any of their respective obligations under this Agreement and/or the Implementation Agreement (as the case may be).
- 4.02 The additional events of acceleration consist of the following:
- (a) Any event specified in paragraph (a) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.
  - (b) Any event specified in paragraph (b) or (c) Section 4.01 of this Agreement occurs.

#### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Implementation Agreement has been executed on behalf of the Borrower, through SAE, ISDEM, and FISDL.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Agreement, there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank, showing that the Implementation Agreement has been duly executed by the Borrower, through SAE, ISDEM and FISDL and is legally binding upon the Borrower, ISDEM and FISDL in accordance with its terms.

- 5.03. 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 1, 2011.

**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 San Salvador, Republic of El Salvador, as of the day and year first above written.

REPUBLIC OF EL SALVADOR

By /s/ Carlos Enrique Cáceres Chávez  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert B. Zoellick  
Authorized Representative

Witnessed by:

/s/ Mr. Mauricio Funes Cartagena  
President of the Republic of El Salvador

## SCHEDULE 1

### **Project Description**

The objective of the Project is to improve the administrative, financial and technical processes, systems and capacity of local governments to deliver basic services, as prioritized by local communities, in the medium and long-term.

The Project consists of the following parts:

#### **Part A: Promotion of Decentralized Service Delivery**

1. Provision of Subproject Grants to Municipalities.

#### **Part B: Strengthening of Municipal Governments**

1. Strengthening of Municipalities' institutional and technical capacity to design and implement Municipal Subprojects, through, *inter alia*, the provision of technical assistance and training to Municipalities' personnel to prepare, implement and supervise Municipal Subprojects.
2. Support for the implementation of the Municipal Administrative Career Law, through, *inter alia*: (a) the development or update (as the case may be), and implementation of municipal rules, processes and procedures; (b) the support of the municipal training center in ISDEM, and the establishment of regional offices of the center in selected sites; and (c) the creation of a national registry for the municipal administrative career, including the carrying out of a periodic update of the information contained in said registry.
3. Strengthening of the participatory planning capacity of Municipalities, through, *inter alia*, the provision of technical assistance and training to improve the processes and systems for the preparation of strategic plans and participatory municipal development plans.
4. Strengthening of the procurement and financial management capacity of Municipalities, through, *inter alia*: (a) the provision of technical assistance and training to improve procurement practices, policies and procedures; and (b) the acquisition and utilization of equipment, including hardware and software.
5. Strengthening of the disaster risk management capacity of Municipalities, through, *inter alia*: (a) the evaluation of current risk management practices; (b) support the development of a national risk management policy, in coordination with the competent national authorities; and (c) the provision of technical assistance to Municipalities in disaster risk reduction activities.

6. Strengthening of the institutional capacity of ISDEM and SSDT, through, *inter alia*, the design and implementation of strategies, plans, programs, institutional structures, rules, and procedures to respond to local needs and development.

**Part C: Decentralization Strategy Support**

1. Support for a national decentralization strategy for service provision, through, *inter alia*: (a) the evaluation of current rules, processes and procedures for said service provision; and (b) support for the development of a national decentralization strategy and plan to implement said strategy.

**Part D: Project Management**

1. Support to FISDL and ISDEM in the coordination and implementation of the Project, through, *inter alia*, the provision of technical assistance and training, and the acquisition and utilization of goods.
2. Design and implementation of a Project communications strategy to support Project implementation.
3. Provision of technical assistance for the establishment of a Project monitoring and evaluation system.
4. (a) Carrying out of technical studies to develop training models to support local public sector management, all as approved by the Bank; and (b) provision of technical assistance to carry out the audits referred to in Sections II.B.3 and V of Schedule 2 to this Agreement, all under terms of reference acceptable to the Bank.



## SCHEDULE 2

### Project Execution

#### **Section I. Implementation Arrangements**

##### **A. Implementation Arrangements**

1. (a) For purposes of providing a Subproject Grant to any given Municipality, the Borrower shall: (i) through SAE, enter into an agreement with said Municipality (the Municipal Framework Agreement), under terms and conditions satisfactory to the Bank, which shall include, *inter alia*, those set forth in Section I of Schedule 4 to this Agreement; and (ii) through MH, transfer said part of the proceeds of the Loan to any given Municipality for purposes of participating in the carrying out of Part A of the Project pursuant to said Municipal Framework Agreement.
  - (b) For purposes of carrying out the Project, the Borrower, through SAE, shall enter into an agreement with FISDL and ISDEM (the Implementation Agreement) under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Section II of Schedule 4 to this Agreement.
  - (c) (i) The Borrower, through SAE, shall exercise its rights and carry out its obligations under each Municipal Framework Agreement and the Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce any Municipal Framework Agreement and/or the Implementation Agreement or any of their provisions.
2. The Borrower, through SSDT, shall establish, and thereafter maintain, throughout the implementation of the Project, an inter-institutional committee (the CI) with functions and responsibilities acceptable to the Bank, as set forth in the Project Operational Manual, for purposes of facilitating the effective coordination of the Project.

##### **B. Project Operational Manual**

1. The Borrower, through SAE, shall carry out the Project, and cause the Project to be carried out, in accordance with the provisions of a manual satisfactory to the Bank (the Project Operational Manual), which shall include, *inter alia*, the following provisions: (a) the Project disbursement and procurement procedures; (b) the Environmental Management Framework and guidelines for the carrying

- out of Municipal Subprojects; (c) the Resettlement Policy Framework; (d) the Indigenous Peoples Planning Framework (IPPF); (e) Project impact and implementation indicators and the procedures for the monitoring and evaluation of the Project; (f) the eligibility criteria for Municipalities to receive Subproject Grants; (g) the eligibility criteria and detailed procedures for the selection, approval, and implementation of Municipal Subprojects; (h) the format of: (A) the unaudited interim financial reports referred to in Section II.B.2 of Schedule 2 to this Agreement; and (B) the Financial Statements; (i) a model Municipal Framework Agreement; (j) the terms of reference for carrying out the audits under Sections II.B.3 and V of Schedule 2 to this Agreement; and (k) the Municipal Fiduciary Framework.
2. Except as the Borrower and the Bank may otherwise agree in writing, the Borrower, through SAE, shall not, and shall cause the Municipalities, FISDL and ISDEM not to, abrogate, amend, suspend, waive or otherwise fail to enforce the Project Operational Manual or any provision thereof.
  3. In case of any conflict among the terms of the Project Operational Manual, the Implementation Agreement, the Municipal Framework Agreements and this Agreement, the provisions of this Agreement shall prevail.

**C. Anti-Corruption Guidelines**

1. The Borrower, through SAE, shall ensure, and shall cause the Municipalities, FISDL and ISDEM to ensure, that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**D. Safeguards**

1. The Borrower, through SAE, shall ensure, and cause the Municipalities, FISDL and ISDEM to ensure, that the Project activities under their responsibility are carried out in accordance with the Environmental Management Framework, the Resettlement Policy Framework, and the Indigenous Peoples Planning Framework (IPPF).
2. With respect to the assistance to be provided to Municipalities to prepare their municipal development plans under Part B.3 of the Project, the Borrower, through SAE, shall, and shall cause ISDEM to ensure, that the terms of reference for said Project activities include a provision, satisfactory to the Bank, mandating that the Municipalities incorporate and/or cause to be incorporated the applicable Bank Safeguard Policies to said plans.

## **Section II. Project Monitoring Reporting and Evaluation**

### **A. Project Reports**

1. The Borrower, through SAE, shall cause ISDEM to monitor and evaluate the progress of the Project and prepare and furnish to the Bank Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Project Operational Manual. Each Project Report shall cover the period of one calendar semester and shall be furnished to the Bank not later than forty five days after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than forty five days after the Closing Date.

### **B. Financial Management, Financial Reports and Audits**

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

## **Section III. Procurement**

### **A. General**

1. **Goods, Works and Non-Consultant Services.** All goods, works and Non-Consultant Services required for the Project and to be financed out of the

proceeds of the Loan shall be procured, and/or caused to be procured, in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured, and/or caused to be procured, in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and Non-Consultant Services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and Non-Consultant Services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Method</b>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

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

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

<b><u>Procurement Method</u></b>
(a) Least-Cost Based Selection
(b) Quality-Based Selection
(c) Selection Based on the Consultants' Qualifications
(d) Single Source Selection
(e) Selection under a Fixed Budget
(f) Procedures set forth in paragraphs 5.1 through 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

**Section IV. Withdrawal of Loan Proceeds**

**A. General**

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

<b><u>Category</u></b>	<b><u>Amount of the Loan Allocated (expressed in Dollars)</u></b>	<b><u>Percentage of Expenditures to be financed (inclusive of Taxes)</u></b>
(1) Subproject Grants under Part A of the Project	52,750,000	100%
(2) Goods, Non-Consultant Services, consultants' services, Operating Costs, and Training under Part B of the Project	23,800,019	100%
(3) Goods, Non-Consultant Services, consultants' services, Operating Costs, and Training under Part C of the Project	699,200	100%
(4) Goods, Non-Consultant services, consultants' services, Operating Costs, and Training under Part D of the Project	2,083,414	100%
(5) Front-end Fee	200,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(6) Unallocated	467,367	
<b>TOTAL AMOUNT</b>	<b>80,000,000</b>	

For purposes of this paragraph:

- (a) the term "Training" means reasonable expenditures (other than those for consultants' services and Non Consultant Services) for: (a) travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (b) course fees; (c) training facility rentals; and (d) training material preparation, acquisition, reproduction and distribution expenses.

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$3,000,000 equivalent may be made for payments made within one year prior to this date but on or after April 21<sup>st</sup>, 2010, for Eligible Expenditures.
2. The Closing Date is November 30<sup>th</sup>, 2015 or any later date as the Bank may agree, and notify to the Borrower in writing.

**Section V. Other Undertakings**

**A. Other Audits**

1. Pursuant to terms of reference previously agreed with the Bank, including, *inter alia*, the scope of the audits to be conducted and furnished to the Bank, and as further specified in the Project Operational Manual, the Borrower, through SAE, shall cause ISDEM, with the participation of FISDL, to: (a) not later than six months after each year of project implementation (starting with calendar year 2010), carry out annual operational audits of Part A of the Project; and (b) not later than six months after the end of the period covered by each such audit, prepare and furnish to the Bank a report, acceptable to the Bank, integrating the results of said audits and setting out the measures to ensure the adequate and efficient carrying out of said Part of the Project and the achievement of the objectives thereof.

### 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 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.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each <u>August 15</u> and <u>February 15</u> Beginning <u>August 15, 2015</u> through <u>February 15, 2040</u>	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 sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (a) 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 (b) 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.

## SCHEDULE 4

### Terms and Conditions of the Municipal Framework Agreements and the Implementation Agreement

#### Section I. Municipal Framework Agreement

Each Municipal Framework Agreement shall contain, *inter alia*, the following provisions:

- A. the obligation of the Borrower, through SAE:
  - (a) upon compliance by the Municipality with the conditions set forth in the Project Operational Manual, which conditions include, *inter alia*: (i) the participation in a Municipal Training; (ii) the presentation to the Borrower, through SAE, of a list of potential Municipal Subprojects and its corresponding investment plan, acceptable to the Bank (which list and plan constitute an integral part of each Municipal Framework Agreement); and (iii) the opening of a Restricted Account, make available, in coordination with MH, on a grant basis, a Subproject Grant to the corresponding Municipality in a manner satisfactory to the Bank, and in accordance with the criteria and procedures set forth in the Project Operational Manual;
  - (b) comply with its obligations referred to in the Loan Agreement, as applicable to Part A of the Project; and
  - (c) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the pertinent Municipal Framework Agreement or any provision thereof, unless previously agreed by the Bank;
- B. the Borrower's right, through SAE, to take remedial actions against the corresponding Municipality in case it shall have failed to comply with any of its obligations under the Municipal Framework Agreement (which actions shall previously be agreed with the Bank);
- C. the Municipality's obligation to:
  - (a) use the Subproject Grant as provided in the Loan Agreement;
  - (b) prioritize Municipal Subprojects through a participatory planning process, according to the criteria and procedures set forth in the Project Operational Manual;

- (c) upon approval of a given Municipal Subproject, establish and thereafter maintain throughout the Municipal Subproject implementation, a Citizen Control Committee with a structure, functions and responsibilities acceptable to the Bank, including, *inter alia*, the responsibility to oversee the implementation of said Municipal Subproject, all as set forth in the Project Operational Manual;
- (d) upon approval of any given Municipal Subproject, according to the criteria and procedures set forth in the Project Operational Manual, carry out said Municipal Subproject with due diligence and efficiency, and in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices, and in accordance with the applicable provisions of the Loan Agreement, the Environmental Management Framework, the Resettlement Policy Framework, and/or the Indigenous Peoples Planning Framework;
- (e) upon approval of a Municipal Subproject, and prior to the carry out of said Municipal Subproject: (i) carry out an environmental assessment of said Municipal Subproject, and prepare an environmental management plan (or similar environmental instrument), all acceptable to the Bank; and (ii) thereafter, to carry out or cause to be carried out said plan in accordance with its terms.
- (f) procure the goods, works, consultants' services and/or Operating Costs in connection with the preparation and implementation of any given Municipal Subproject in accordance with the provisions set forth in Section III of Schedule 2 to this Agreement, and under the supervision of FISDL;
- (g) ensure that the activities under Part A of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines;
- (h) provide FISDL with the necessary information to prepare the interim unaudited financial reports for Part A of the Project;
- (i) provide the necessary information for the carrying out of the operational audits referred to in Section V of Schedule 2 to this Agreement;
- (j) maintain, at all times during Project implementation, a financial management system in accordance with the provisions of Section 5.09 (a) of the General Conditions;
- (k) once the pertinent Municipal Subproject has been carried out in a manner acceptable to the Bank, operate and maintain the investments supported under said Municipal Subproject, with due diligence and efficiency, and in

conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices, and the applicable provisions of this Agreement;

- (l) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the pertinent Municipal Framework Agreement or any provision thereof, unless previously agreed by the Bank; and
- (m) to take or permit to be taken all actions to enable the Borrower, through SAE, FISDL and ISDEM to comply with their respective obligations referred to in this Agreement and/or in the Implementation Agreement, as the case may be.

## **Section II. Implementation Agreement**

The Implementation Agreement shall contain, *inter alia*, the following provisions:

- A.** the obligation of the Borrower, through SAE:
  - (a) to promptly disburse to ISDEM the proceeds of the Loan allocated to finance the carrying out of Parts B, C, and D of the Project;
  - (b) with respect to the implementation of Part C of the Project, through SSDT, to assist ISDEM in the carrying out said Part C of the Project;
  - (c) to take or permit to be taken all actions to enable FISDL and ISDEM to comply with their respective obligations under the Project as referred to in Section II.C and II.D of this Schedule, respectively; and
  - (d) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Implementation Agreement or any provision thereof, unless previously agreed by the Bank;
- B.** the right of the Borrower, through SAE, to take remedial actions against FISDL and/or ISDEM in case FISDL and/or ISDEM shall have failed to comply with any of their obligations under the Implementation Agreement (which actions shall previously be agreed with the Bank);
- C.** the obligation of FISDL to:
  - (a) (i) carry out activities under part D.1 of the Project pertaining to FISDL; and (ii) provide the necessary technical support to: (A) the Borrower, through SAE, in order to carry out Part A of the Project; and (B) ISDEM, in order to enable ISDEM to carry out Parts B and D.2, D.3, and D.4 of

the Project, all in accordance with the provisions of this Agreement and those set forth in the Project Operational Manual;

- (b) with respect to the implementation of Part A of the Project: (i) develop a handbook to prepare, implement and supervise Municipal Subprojects; (ii) support ISDEM in providing the Municipal Training; (iii) certify compliance of conditions by any given Municipality to become eligible to receive a Subproject Grant, under terms and conditions set forth in the Project Operational Manual; (iv) assist the Municipalities in the preparation of Municipal Subprojects; (v) confirm the participatory planning process carried out by the Municipalities to prioritize Municipal Subprojects; (vi) certify the establishment of Citizen Control Committees; (vii) evaluate and approve Municipal Subprojects, in accordance with the criteria and procedures set forth in the Project Operational Manual; (viii) approve the procurement plans for each Municipality; (ix) validate that procurement provisions and procedures comply with the provisions of the Municipal Fiduciary Framework; (x) authorize any given Municipality to withdraw the proceeds of the Subproject Grant pursuant to the terms and conditions set forth in the Project Operational Manual; (xi) assist the Municipalities in the implementation and supervision of Municipal Subprojects, including in the procurement and financial management requirements related to said Municipal Subprojects; (xii) supervise the application of the Environmental Management Framework, the Resettlement Policy Framework, and the Indigenous Peoples Planning Framework during Municipal Subprojects' preparation and implementation; and (xiii) prepare and furnish to ISDEM the consolidated interim unaudited financial reports for Municipalities; (xiv) coordinate with ISDEM the preparation of the terms of reference for the contracting of the operational audits referred to in Section V.A.1 of Schedule 2 of this Agreement; and (xv) carry out its financial management obligations as referred to in Section II.B. of Schedule 2 to this Agreement;
- (c) to comply with the provisions of the Anti-Corruption Guidelines in connection with the activities of the Project under its responsibility;
- (d) maintain, at all times during Project implementation, a financial management system in accordance with the provisions of Section 5.09 (a) of the General Conditions;
- (e) have Financial Statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly thereafter furnish said statements as so audited to ISDEM;

- (f) with respect to the implementation of the activities under part D.1 of the Project pertaining to FISDL, comply with its financial management and reporting obligations pursuant to Section II of Schedule 2 to this Agreement;
- (g) not to assign, amend, terminate, abrogate, repeal, waive, terminate, or fail to enforce the Implementation Agreement or any provision thereof unless previously agreed with the Bank; and
- (h) to take or permit to be taken all actions to enable the Borrower, through SAE, ISDEM and the Municipalities to comply with their respective obligations referred to in this Agreement, the Municipal Framework Agreements, and/or the Implementation Agreement, as the case may be.

**D.** the obligation of ISDEM to:

- (a) (i) carry out Parts B, C, D.2, D.3, D.4 and the activities under part D.1 of the Project pertaining ISDEM; and (ii) provide the necessary technical support to the Borrower, through SAE, in order to carry out Part A of the Project, all in accordance with the provisions of this Agreement and those set forth in the Project Operational Manual;
- (b) with respect to the implementation of Part A of the Project, to: (i) develop a handbook to prepare, implement and supervise Municipal Subprojects; (ii) provide the Municipal Training, with the assistance of FISDL; and (iii) support the establishment and functioning of the Citizen Control Committees.
- (c) transfer part of the proceeds of the Loan to FISDL to finance Operating Costs, for purposes of participating in the carrying out of Part D.1 of the Project;
- (d) (i) establish, and thereafter operate and maintain, at all times during Project implementation, an executing unit with a structure, functions and responsibilities acceptable to the Bank, as set forth in the Project Operational Manual; and (ii) ensure that said unit is, at all times during Project implementation, assisted by professional staff (including, *inter alia*, a financial management specialist and a procurement specialist) and administrative staff, all in numbers and with terms of reference, and qualifications and experience, acceptable to the Bank;
- (e) coordinate the monitoring and evaluation of the Project;

- (f) with respect to the implementation of Part B, C, and D of the Project, to carry out the procurement in accordance with Section III of Schedule 2 to this Agreement;
- (g) with respect to the implementation of Part B, C, D.2, D.3, D.4 of the Project, and the activities under part D.1 of the Project pertaining ISDEM, to comply with its financial management and reporting obligations pursuant to Section II of Schedule 2 to this Agreement
- (h) for purposes of enabling the Borrower, through SAE, to comply with the obligation set forth in Section V: (i) coordinate with FISDL the preparation of the terms of reference for said audits; and (ii) hire an independent auditor, acceptable to the Bank, according to the criteria and procedures set forth in the Project Operational Manual;
- (i) comply with the provisions of the Anti-Corruption Guidelines in connection with the activities of the Project under its responsibility;
- (j) ensure that any activity under Parts B, C, D.2, D.3, D.4 of the Project, and the activities under part D.1 of the Project pertaining ISDEM is carried out in accordance with the pertinent provisions of Schedule 2 to this Agreement, including the Project Operational Manual, the Indigenous Peoples Planning Framework (IPPF), the Environmental Management Framework, and the Resettlement Policy Framework;
- (k) not to assign, amend, terminate, abrogate, repeal, waive, terminate, or fail to enforce the Implementation Agreement or any provision thereof unless previously agreed by the Bank; and
- (l) take or permit to be taken all actions to enable the Borrower, through SAE, FISDL and the Municipalities to comply with their respective obligations referred to in this Agreement, the Municipal Framework Agreements and/or the Implementation Agreement, as the case may be.

## APPENDIX

### Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Bank Safeguard Policies” means the Bank’s operational policies and procedures set forth in the Bank’s Operational Manual under OP/BPs 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60 as said manual is published under [www.WorldBank.org/opmanual](http://www.WorldBank.org/opmanual).
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “CI” means the inter-institutional committee referred to in Section I.A.2 of Schedule 2 to this Agreement, with the structure, functions and responsibilities acceptable to the Bank, as set forth in the Project Operational Manual.
5. “Citizen Control Committee” means any of the committees referred to in Section I. C. (c) of Schedule 4 to this Agreement, composed of community members for the purpose of monitoring the implementation of the Municipal Subproject, all under terms and conditions set forth in the Project Operational Manual.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
7. “Environmental Management Framework” means the Borrower’s framework, acceptable to the Bank, dated April 16, 2010, and included in the Operational Manual which sets forth the necessary procedures/actions to be undertaken by the Borrower and/or the Municipalities to avoid, minimize or mitigate any potential negative environmental impact under Municipal Subprojects.
8. “FISDL” means *Fondo de Inversión Social para el Desarrollo Local de El Salvador*, the Borrower’s Social Investment Fund for Local Development.
9. “FISDL Legislation” means *Ley de Creación de Inversión Social*, the Borrower’s Legislative Decree No. 610 dated October 31, 1990 (duly published in the Borrower’s Official Gazette on November 16, 1990), as amended by the Borrower’s Decree No. 826 dated September 19, 1996 (duly published in the Borrower’s official Gazette on October 2, 1996).
10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended



- through February 12, 2008 and as further modified pursuant to Section II of this Appendix).
11. “Implementation Agreement” means the agreement referred to in Section I.A.1 (b) of Schedule 2 to this Agreement.
  12. “Indigenous Peoples Planning Framework” or “IPPF” means the Borrower’s framework, dated April 12, 2010, acceptable to the Bank, which sets forth: (a) the necessary procedures to ensure that the principles outlined under the Bank’s operational policy and procedures OP/BP 4.10 (i.e. screening, social assessment, consultation and participation, etc.) are taken into account during Project preparation and implementation; and (b) the principles and objectives governing the preparation and implementation of indigenous plans.
  13. “ISDEM” means *Instituto Salvadoreño de Desarrollo Municipal*, the Borrower’s Institute for Municipal Development.
  14. “ISDEM Legislation” means *Ley Orgánica del Instituto Salvadoreño de Desarrollo Municipal*, the Borrower’s Legislative Decree No. 616 dated March 4, 1987 (duly published in the Borrower’s Official Gazette on March 17, 1987).
  15. “MH” means *Ministerio de Hacienda*, the Borrower’s Finance Ministry.
  16. “Municipal Administrative Career Law” means *Ley de la Carrera Administrativa Municipal*, the Borrower’s Legislative Decree No. 1039 dated May 26, 2006 (duly published in the Borrower’s Official Gazette on June 6, 2006), as amended by the Borrower’s Decree No. 601 dated April 10, 2008 (duly published in the Borrower’s Official Gazette on May 15, 2008), and the Borrower’s Decree No. 20 dated May 20, 2009 (duly published in the Borrower’s Official Gazette on June 11, 2009).
  17. “Municipal Fiduciary Framework” means the Borrower’s framework dated April 26, 2010, acceptable to the Bank, establishing the criteria, norms and procedures governing the use of Subproject Grants and counterpart funds transferred to Municipalities for purposes of carrying out Municipal Subprojects under Part A of the Project.
  18. “Municipal Framework Agreement” means any of the agreements referred to in Section I. A. (a) of Schedule 2 to this Agreement.
  19. “Municipal Subproject” means any investment activity proposed by a Municipality in the sanitation and waste, potable water, rural roads and electricity sectors, and/or any other investment of similar nature selected in accordance with terms and conditions specified in the Project Operational Manual.

20. “Municipal Training” means the training activities under Part B.1 of the Project that will be provided to the Municipalities on, *inter alia*: (a) Bank’s rules and procedures relevant for the implementation of the Project, including the application of Bank’s Safeguard Policies, Procurement Guidelines, and Financial Management Guidelines; and (b) the implementation of the Municipal Fiduciary Framework.
21. “Municipality” means any of the Borrower’s municipalities (*Municipio*), which meets the selection criteria set forth in the Project Operational Manual.
22. “Non-consultant Services” means services which will be bid and contracted on the basis of performance of measurable physical outputs, such as the logistical service expenses for capacity building events, printing of training materials and media campaigns.
23. “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, *per diem* and supervision costs of locally contracted employees.
24. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
25. “Procurement Plan” means the procurement plan prepared by ISDEM for Parts B, C and D of the Project, dated April 22, 2010, and the procurement plans prepared by each Municipality and approved by FISDL for Part A of the Project, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. “Project Operational Manual” means the manual dated April 26, 2010, satisfactory to the Bank, referred to in Section I.B.1 of Schedule 2 to this Agreement, as the same may be amended from time to time with agreement of the Bank.
27. “Restricted Account” means the separate account to be opened by each Municipality in a financial institution, designated by MH, acceptable to the Bank, and under terms and conditions set forth in the Project Operational Manual, for purposes of depositing the proceeds of the Subproject Grants, which funds will be withdrawn by said Municipality upon FISDL’s approval and certification that all conditions for each withdrawal have been met by the pertinent Municipality.
28. “Resettlement” means the impact of an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living

- adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently.
29. “Resettlement Policy Framework” means the Borrower’s framework dated April 7<sup>th</sup>, 2010, acceptable to the Bank which sets forth, *inter alia*, the principles and objectives governing the preparation and implementation of Resettlement plans, and a description of the process for preparing and approving said plans under Part A of the Project.
30. “SAE” means *Secretaría para Asuntos Estratégicos de la Presidencia*, the Borrower’s Secretariat for Strategic Affairs.
31. “SSDT” means *Subsecretaría de Desarrollo Territorial y Descentralización*, the Borrower’s Subsecretariat for Territorial Development and Decentralization, or any other successor thereto.
32. “Subproject Grant” means a grant made out of the proceeds of the Loan to a Municipality to finance goods, works, consultants’ services and/or Operating Costs in connection with the preparation and implementation of one or more Municipal Subprojects.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

*“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Bank (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (1) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (1) *Ineligibility*. The Bank or the Bank has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Bank, as a result of a determination by the Bank or the Bank that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Bank.”

3. 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 term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”