

CONFORMED COPY

LOAN NUMBER 7278-ES

Loan Agreement

(Second Land Administration Project)

between

REPUBLIC OF EL SALVADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated August 29, 2005

LOAN NUMBER 7278-ES

LOAN AGREEMENT

AGREEMENT, dated August 29, 2005, between REPUBLIC OF EL SALVADOR (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) 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 (B) 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 (as amended through May 1, 2004), with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

- (a) Section 5.08 of the General Conditions is amended to read as follows:

"Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank's policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank."

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

(a) “Cadastral Law” means the Borrower’s Legislative Decree No. 604, published in the Borrower’s Official Gazette dated June 24, 1974, as amended by the Borrower’s Legislative Decree No. 611, published in the Borrower’s Official Gazette, dated February 9, 1996;

(b) “CNR” means *Centro Nacional de Registros*, the Borrower’s National Center of Registries: (i) created by the Borrower’s Executive Decree No. 62 of December 5, 1994 and published in the Borrower’s Official Gazette No. 227, Volume No. 325 of December 7, 1994, as amended by Executive Decree No. 94 of September 19, 1997, Executive Decree No. 6 of June 1, 1999 and Executive Decree No. 23 of March 19, 2001; and (ii) granted administrative and financial autonomy by the Borrower’s Legislative Decree No. 462, dated October 5, 1995, published in the Borrower’s Official Gazette No. 187, Volume 329 of October 10, 1995;

(c) “CONCULTURA” means *Consejo Nacional para la Cultura y el Arte*, the Borrower’s National Cultural and Art Council, created by the Borrower’s Executive Decree No. 55 of September 20, 1990;

(d) “CONCULTURA Participation Agreement” means the agreement referred to in Section 3.01 (f) of this Agreement;

(e) “Eligible Categories” means Categories (1) through (6) 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;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “ILP” means *Instituto Libertad y Progreso*, the Borrower’s Institute for Liberty and Progress created by the Borrower’s Legislative Decree No. 16 of February 26, 1991;

(i) “ILP Participation Agreement” means the Agreement referred to in Section 3.01 (c) of this Agreement;

(j) “ISTA” means *Instituto Salvadoreño de Transformación Agraria*, the Borrower’s Agrarian Institute, created by Legislative Decree No. 302 of June 26, 1975 and published in the Borrower’s Official Gazette No. 120, Volume 247 of June 30, 1975;

(k) “ISTA Participation Agreement” means the agreement referred to in Section 3.01(e) of this Agreement;

(l) “MARN” means *Ministerio de Medio Ambiente y Recursos Naturales*, the Borrower’s Ministry of Environment and Natural Resources;

(m) “MARN Participation Agreement” means the agreement referred to in Section 3.01 (d) of this Agreement;

(n) “Municipality” means an autonomous entity governed by the Borrower’s Legislative Decree No. 274 of February 3, 1986 and published in the Borrower’s Official Gazette No. 23, Volume 290 of February 5, 1986, as amended to the date of this Agreement;

(o) “Municipality Agreement” means any of the Agreements mentioned in Section 3.01 (g) of this Agreement;

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

(q) “Participating Agencies” means ILP, MARN, ISTA and CONCULTURA;

(r) “Participation Agreements” means the ILP Participation Agreement, the ISTA Participation Agreement, the MARN Participation Agreement, and the CONCULTURA Participation Agreement;

(s) “PCU” means the Project coordinating unit referred to in Section 3.04 of this Agreement;

(t) “Procurement Plan” means the Borrower’s procurement plan, dated January 11, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(u) “Protected Area” means an area officially designated by the Borrower to be under a special management regime for the primary purpose of ensuring its biodiversity and ecological integrity;

(v) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(w) “SIRyC” means *Sistema de Información, Registro y Catastro*, the Borrower’s Property Registry and Cadastre Information System registered in the intellectual property registry of the CNR;

(x) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(y) “Subsidiary Loan Agreement” means the agreement to be entered into between the Borrower and CNR pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to CNR.

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 forty million two hundred thousand Dollars (\$40,200,000), 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 and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

Section 2.03. The Closing Date shall be July 1, 2011 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 fifty one-hundredths of one per cent (0.50%) of the amount of the Loan. 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 February 15 and August 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.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium

payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower: (i) declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause CNR, with the cooperation of the Participating Agencies and Municipalities as set forth below, to carry out the Project with due diligence and efficiency and in conformity with appropriate engineering, economic, administrative, financial, technical, environmental and surveying practices and in accordance with the provisions of the Operational Manual, the Subsidiary Loan Agreement, the Participation Agreements and the Municipality Agreements; (ii) shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable CNR to perform such obligations; and (iii) shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Loan to CNR under a subsidiary loan agreement to be entered into between the Borrower and CNR (the Subsidiary Loan Agreement), under terms and conditions which shall have been approved by the Bank, including those set forth in the Operational Manual with respect to financial management, procurement, environmental, social and other procedures for the carrying out of the Project.

(c) Without limitation to the provisions of paragraphs (a) and (b) above, prior to carrying out any activity under Part A.3 of the Project, the Borrower shall cause CNR to enter into an agreement with ILP (the ILP Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role of ILP in the titling in areas of social interest under Part A.3 of the Project.

(d) Without limitation to the provisions of paragraphs (a), (b) and (c) above, prior to carrying out any activity under Part A.4 of the Project, the Borrower shall cause CNR to enter into an agreement with MARN (the MARN Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role of MARN in the delimitation of Protected Areas under Part A.4 of the Project.

(e) Without limitation to the provisions of paragraphs (a), (b), (c) and (d) above, prior to carrying out any activity under Part A.4 of the Project, the Borrower shall cause CNR to enter into an agreement with ISTA (the ISTA Participation Agreement),

under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role of ISTA in the delimitation of Protected Areas within the agrarian sector under Part A.4 of the Project.

(f) Without limitation to the provisions of paragraphs (a), (b), (c), (d) and (e) above, prior to carrying out any activity under Part A.4 of the Project, the Borrower shall cause CNR to enter into an agreement with CONCULTURA (the CONCULTURA Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role of CONCULTURA in the delimitation of areas of cultural value under Part A.4 of the Project.

(g) Without limitation to the provisions of paragraphs (a), (b), (c), (d), (e) and (f) above, the Borrower shall cause CNR to enter into an agreement (a Municipality Agreement) with each Municipality responsible for keeping the cadastre databases updated under Part B.2 of the Project, under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual.

(h) The Borrower shall exercise its rights under the Subsidiary Loan Agreement and shall cause CNR to exercise its rights under each Participation Agreement and each Municipality Agreement in such a 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 and CNR shall not amend, assign, abrogate, suspend, terminate, waive or fail to enforce the Subsidiary Loan Agreement, any Participation Agreement, any Municipality Agreement, or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall cause CNR to update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than 12 months after the date of the preceding Procurement Plan, for the Bank's approval.

Section 3.03. (a) The Borrower shall cause CNR to issue an operational manual (the Operational Manual), satisfactory to the Bank, setting forth rules and procedures for the carrying out of the Project, such manual to include, *inter alia*:

- (i) the duties and responsibilities of CNR, Participation Agencies and Municipalities in Project implementation;
- (ii) the technical, legal, administrative, financial, procurement and monitoring procedures for Project implementation; and

(iii) the standard bidding documents for procurement of non-consultant services.

(b) The Operational Manual may be amended by CNR from time to time with the prior approval of the Borrower and the Bank. In the 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, throughout the course of Project implementation, cause CNR to maintain a Project coordinating unit (the PCU) with functions, staffing and responsibilities satisfactory to the Bank, including without limitation a coordinator responsible for overseeing the day-to-day implementation of Project activities, a procurement officer, and a financial management officer.

Section 3.05. The Borrower shall, and shall cause CNR, to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, 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 six months after the Effective Date and semestally thereafter during the period of Project implementation, a report integrating the results of the monitoring and 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 said 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; and

(c) review with the Bank, not later than two months after the date of such report, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, and, thereafter, 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 report and the Bank's views on the matter.

Section 3.06. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, 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 designed to ensure the continued achievement of the Project's objective; and

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

Section 3.07. Without limitation to the Borrower's obligations in Section 3.01 of this Agreement, the Borrower shall and shall cause CNR to:

(a) carry out the recommendations included in the environmental analysis, dated January 5, 2005, as may be amended from time to time with the prior approval of the Bank, in accordance with its terms; and

(b) carry out the terms of the indigenous peoples development plan, dated January 12, 2004, as may be amended from time to time with the prior approval of the Bank.

Section 3.08. The Borrower shall ensure that no private land titles are issued: (a) in areas considered critical natural habitats, areas of cultural value and/or under dispute, or in areas known to be at high risk of natural disaster; and/or (b) in private property in which the possessor acquires ownership by means of mechanisms such as adverse possession.

Section 3.09. The Borrower shall obtain the Bank's no-objection before initiating any Project activity to be carried out in any part of the Borrower's territory bordering on the territory of another country.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall:

- (i) maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project; and
- (ii) cause CNR to maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall, and shall cause CNR to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank): (A) certified copies of the respective financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records, accounts and the audit of such financial statements, 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 reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall and shall cause CNR to:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.05 of this Agreement, the Borrower shall prepare or cause CNR to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing

separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

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

(a) CNR has failed to comply with any of its obligations under the Subsidiary Loan Agreement.

(b) Any Participating Agency has failed to comply with any of its obligations under its respective Participation Agreement.

(c) The Cadastre Law or any of the Decrees referred to in the definition of CNR in Section 1.02 (b) of this Agreement or any provision thereof shall have 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 to perform any of its obligations under this Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of CNR.

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

(a) Any event specified in paragraphs (a) or (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

(b) Any event specified in paragraphs (c) or (d) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and CNR;

(b) the Operational Manual and a detailed action plan for the implementation of the Project satisfactory to the Bank have been adopted by the Borrower and CNR; and

(c) the PCU has been established and staffed as set forth in Section 3.04 of this Agreement.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and CNR and is legally binding upon the Borrower and CNR in accordance with its terms.

Section 6.03. The date November 28, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance (*Ministro de Hacienda*) of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministerio de Hacienda
Boulevard de los Héroes #1231
San Salvador, El Salvador, C.A.

Facsimile:
(503) 225-7491

With a copy to:

Executive Director, CNR
1a. Calle Poniente y 43 Av. Norte, No. 2310
San Salvador, El Salvador, C.A.

Facsimile:
(503) 260-6409

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

REPUBLIC OF EL SALVADOR

By /s/ René León

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Armitage

Authorized Representative

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) Goods	2,100,000	83%
(2) Consultants' services	6,950,000	83%
(3) Training	1,000,000	83%
(4) Non-Consultant Services	27,600,000	83%
(5) Works	350,000	83%
(6) Incremental Operating Costs	1,600,000	83%
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amounts due pursuant to Section 2.09 (c) of this Agreement
(8) Front-end fee	201,000	Amount due under Section 2.04 of this Agreement
(9) Unallocated	399,000	
TOTAL	<u><u>40,200,000</u></u>	

2. For the purposes of this Schedule:

(a) the term "incremental operating costs" means the reasonable and necessary incremental operating expenditures, as approved by the Bank on the basis of the Procurement Plan, incurred by the Borrower with respect to: (i) remuneration of personnel hired under the Project; and (ii) recurrent costs associated with the implementation of the Project, including: (A) operation, leasing and maintenance of: (a) office equipment, vehicles (including fuel, repairs and spare parts); and (b) office facilities under the Project; (B) insurance for equipment and vehicles procured under the Project; (C) office utilities associated with the functioning of the PCU; (D) communications expenses required for the implementation of the Project; and (E) office materials;

(b) the term "non-consultant services" means services for land regularization activities covering areas such as promotion and publicity, geodesy and mapping, field data acquisition and quality and control activities, and legal and cadastral data transfer; and

(c) the term "training" means the reasonable and necessary training expenditures, as approved by the Bank on the basis of the Procurement Plan, incurred by the Borrower with respect to: (i) training materials; (ii) rental of training facilities; (iii) transportation expenses of trainees to the place where training is provided and subsistence expenses for such trainees; (iv) scholarships and fellowships for training courses to be provided in the Borrower's territory or abroad; and (v) study tours and internships in the Borrower's territory or abroad.

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 \$4,000,000, may be made on account of payments made for expenditures before that date but after March 15, 2005 (but in no case earlier than twelve months immediately before the date of this Agreement); and (b) payments made for expenditures under Category (4) set forth in the table in paragraph 1 of this Schedule unless regulations to the Cadastre Law satisfactory to the Bank have been approved and entered into effect.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) operating costs; and (b) goods, works, services and training not subject the Bank's Prior Review as set forth in Section IV of Schedule 4 to this Agreement.

5. Upon receipt by the Borrower of written notice from the Bank, the Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the

Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in a bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, which in the case of a commercial bank, would include appropriate protection against set-off, seizure and attachment.

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) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, 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, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures 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 Report-based

Disbursements or were made on the basis of statements of expenditure, as the case may be.

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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal 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
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
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
Report-based Disbursements**

1. 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 Eligible Categories.

2. 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 reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the Borrower's land tenure security and land transactions through the provision of efficient, equitable and accessible land administration services to facilitate better land-related investments and more productive and environmentally sustainable land use.

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: Land Regularization

1. Review of Legal, Regulatory and Administrative Frameworks

(a) Provision of technical assistance to support the improvement of the Borrower's legal, regulatory and administrative frameworks related to property rights and land administration to ensure that the CNR and other entities involved in the provision of such services are able to: (i) provide more efficient, decentralized, accessible and fluid registration and cadastre services; and (ii) provide adequate legal solutions to land tenure irregularities;

(b) carrying out of consultation, dissemination and public awareness activities related to the regulatory improvements referred to in (a) above; and

(c) provision of training and carrying out of workshops on the regulatory improvements referred to in (a) above.

2. Land Regularization

(a) Preparation of basic cartography for cadastre surveys, including digital mapping in departments within the Borrower's territory;

(b) verification of rights and delimitation of properties within the Borrower's territory, including a dissemination campaign, analysis of existing cadastral and registry information, field surveys, field conflict resolution, notification and consultation of results, and integration in SIRyC; and

(c) (i) transfer to SIRyC of registry data in *folio personal* (property registry kept by name of registrant/owner), in *folio real* (paper record kept by parcel), and in mechanized records of all previous property registry systems; and (ii) linkage of such registry data with cadastre data in order to have a one-to-one link between the property registry and the map of parcels within the Borrower's territory.

3. Legalization and/or Titling of Lands in Areas of Social Interest

Legalization and/or titling of lands, selected by CNR jointly with the Borrower's Technical Secretariat of the Presidency according to a poverty map published by the Borrower's social investment fund for local development, whose ownership or good faith possession is demonstrated by low-income populations of the Borrower.

4. Delimitation and Limited Demarcation of Protected Areas

- (a) Delimitation of boundaries of Protected Areas and of mangroves;
- (b) demarcation of three selected Protected Areas identified by MARN and acceptable to the Bank, which have no internal or external tenure conflicts;
- (c) delimitation of three priority cultural sites identified by CONCULTURA and acceptable to the Bank, which have no internal or external tenure conflicts; and
- (d) inclusion of specific notations for registered parcels with elements of cultural value in SIRyC and other registration systems of the Borrower.

Part B: Decentralization of Land Administration Services

1. Consolidation of the Strengthening of CNR Offices

Strengthening of the capacity of CNR's departmental and other offices to provide local services related to registration of sales, inheritance, and mortgages, as well as re-measurements or preparation of cadastre plans, including:

- (a) institutional improvements to make services more accessible to end-users;
- (b) improvements with the use of information technology including web-based services to improve service execution at a highly local and decentralized level;
- (c) training campaigns involving different sectors to create a culture of registry rights and of how the cadastre is an important input for property registration; and
- (d) support to the Borrower's national geographic and cadastre institute and land and mortgage registry to obtain and maintain the International Organization for Standardization's (ISO) standard 9000 certification.

2. Modernization of Land Administration Services at Local Level

Strengthening of the ability of Municipalities to provide maintenance of cadastre data and of land administration services.

Part C: Project Administration

1. Provision of technical assistance, equipment, training, workshops and incremental operating costs, as necessary, to operate and strengthen PCU and other units within CNR involved in Project implementation, as well as to coordinate with other entities of the Borrower and to monitor and evaluate the implementation of the Project.

2. Provision of audit services for purposes of Section 4.01 (b) of this Agreement.

3. Carrying out of studies related to land administration and other aspects of sustainable development, as well as studies to evaluate the Project.

* * *

The Project is expected to be completed by January 1, 2011.

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>
August 15, 2011	4.08%
February 15, 2012	4.22%
August 15, 2012	4.37%
February 15, 2013	4.52%
August 15, 2013	4.68%
February 15, 2014	4.85%
August 15, 2014	5.02%
February 15, 2015	5.19%
August 15, 2015	5.37%
February 15, 2016	5.56%
August 15, 2016	5.76%
February 15, 2017	5.96%
August 15, 2017	6.17%
February 15, 2018	6.38%
August 15, 2018	6.60%
February 15, 2019	6.84%
August 15, 2019	7.07%
February 15, 2020	7.36%

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 sub-paragraph (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 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 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. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding

1. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

2. To the extent practicable contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Bank agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract, works estimated to cost less than \$5,000,000 equivalent per contract, and services (other than consultants' services) estimated to cost less than

\$1,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in accordance with the provisions of paragraphs 3.1, 3.3 and 3.4 of the Procurement Guidelines.

3. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract, works estimated to cost less than \$100,000 equivalent per contract and services (other than consultant's services) estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

4. Direct Contracting. Goods, works and services (other than consultants' services) which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may, with the Bank's prior agreement, be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval by the Bank.

Section IV. 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. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the report on the qualifications and experience of all evaluated candidates, the terms of reference and the terms of employment of the consultants shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Project Monitoring Indicators

COMPONENT	INDICATOR
Part A: Land Regularization	
Part A.1 of the Project Review of Legal/Regulatory/ Administrative Frameworks	<ul style="list-style-type: none"> • Legal, regulatory and administrative diagnostics and recommendations issued • Land stakeholders, including all Project stakeholders, consulted
Part A.2 of the Project Land Regularization	<ul style="list-style-type: none"> • 98% of the Borrower's territory surveyed (unit: sq. km.) • 95% of properties transferred into SIRyC with one-one registry/cadastre linkage
Part A.3 of the Project Titling in Areas of Social Interest	<ul style="list-style-type: none"> • 100% of properties titled/legalized and registered into SIRyC (target: 15,000)
Part A.4 of the Project Delimitation and Limited Demarcation of Protected Areas	<ul style="list-style-type: none"> • 90% of the areas included within the Borrower's official natural protected area system (SANP) as of February 9, 2005 delimited (unit: km.), 3 protected areas demarcated and 3 cultural sites delimited
Part B: Decentralization of Land Administration Services	
Part B.1 of the Project Consolidation of the Strengthening of CNR Departmental Offices	<ul style="list-style-type: none"> • 100% of offices providing cadastre and registry services based in SIRyC • 80% of CNR offices for which revenues and operating costs can be monitored
Part B.2 of the Project Modernization of Land Administration Services at local level	<ul style="list-style-type: none"> • 90% of municipalities whose maintenance agreements with CNR are operating (target: 60 municipalities) • 90% of municipalities whose revenue base has increased (target: 60 municipalities)
Part C: Project Administration	
Part C of the Project Project administration	<ul style="list-style-type: none"> • Monitoring and Evaluation reports issued on time as per this Agreement. • Completion report issued six months after Closing Date

