

CONFORMED COPY

LOAN NUMBER 7336-ES

Loan Agreement

(Social Protection Project)

between

REPUBLIC OF EL SALVADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 4, 2006

LOAN NUMBER 7336-ES

LOAN AGREEMENT

AGREEMENT, dated April 4, 2006, 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;

(B) the objective of the Project, as described in Schedule 2 to this Agreement, is to improve the education, health, and nutrition of the Borrower's children living in the Borrower's Participating Municipalities;

(C) the Borrower shall finance Part A of the Project (Conditional Cash Transfer Program) out of counterpart funds;

(D) the Borrower intends to contract from the Inter-American Development Bank (IADB) a loan in an amount of \$57,000,000 (the IADB Loan) to assist in financing Parts B and D of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and IADB (the IADB Loan Agreement);

(E) the Borrower, IADB and the Bank intend to enter into an agreement (the MOU) to regulate certain matters of disbursement and procurement in connection with such financing;

(F) 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 modifications 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Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their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) “ACI” means *Adquisiciones y Contrataciones Institucionales*, FISDL’s procurement unit;

(b) “AIN-C” means *Atención Integral en Nutrición a Nivel Comunitario*, a community-based growth promotion and nutrition program, with integrated care for children;

(c) “Beneficiaries” means, collectively, the families which have met the eligibility criteria set forth in the Operational Manual (as hereinafter defined) for the receipt of Grants (as hereinafter defined) under Part A.1 of the Project;

(d) “Coordination Agreement” means the Agreement set forth in Section 3.01 (g) of this Agreement;

(e) “Education Grant” means any of the grants to be provided under Part A.1 (a) of the Project;

(f) “Eligible Categories” means: (i) Categories (2), (3) and (4) (for Special Account A); and (ii) Category (1) (for Special Account B) as set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) “Eligible Expenditures” means the expenditures for goods, consultants’ services and NGOs fees, referred to in Section 2.02 of this Agreement;

(h) “Financial Institution” means any financial institution, corporation, partnership, NGO (as defined hereinafter) or other entity organized and registered under the Borrower’s laws, which has been selected in accordance with the criteria set forth in the Operational Manual, and acceptable to the Bank, that enters into a Financial Institution Agreement (as hereinafter defined);

(i) “Financial Institution Agreement” means any of the agreements referred to in Section 3.02 of this Agreement, and such term includes all schedules and agreements supplemental to the Financial Institution Agreement;

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

(k) “FISDL” means *Fondo de Inversión Social para el Desarrollo Local*, the Borrower’s social investment fund for local development, established and operating pursuant to the provisions of the Borrower’s Legislative Decree No. 610, dated October 31, 1990, and published the Borrower’s Official Gazette No. 262, on November 16, 1990, as modified by the Borrower’s Legislative Decree No. 826, dated September 19, 1996, and published the Borrower’s Official Gazette No. 184 on October 2, 1996;

(l) “Grant” means either an Education Grant or Health and Nutritional Grant (as hereinafter defined);

(m) “IPDP” means the Borrower’s action plan to enhance the participation of indigenous peoples under the Project, as set forth in the Operational Manual, published in FISDL’s (as hereinafter defined) website on August 18, 2005;

(n) “Loan No. 7084-ES” means the Loan Agreement entered into on January 11, 2002 between the International Bank for Reconstruction and Development and the Republic of El Salvador for the Earthquake Emergency Reconstruction and Health Services Extension Project;

(o) “MINED” means *Ministerio de Educación*, the Borrower’s Ministry of Education;

(p) “MINED Participation Agreement” means the Agreement referred to in Section 3.01 (d) of this Agreement;

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

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

(s) “Monitoring Indicators” means the indicators to be used in monitoring and evaluating the implementation of the Project, as set forth in the Operational Manual;

(t) “NGO” or “non-governmental organization” means a non-governmental organization established and operating in the Borrower’s territory selected in accordance with criteria set forth in the Operational Manual for implementation of Part B of the Project;

(u) “Operational Manual” means the manual referred to in Section 3.04 of this Agreement;

(v) “Participating Agencies” means MINED, MOH, STP and RNPN;

(w) “Participation Agreements” means the MINED Participation Agreement, the MOH Participation Agreement, and the RNPN Participation Agreement;

(x) “Participating Municipality” means any of the Borrower’s one hundred municipalities which may be considered eligible (including those affected by extreme poverty and located in the Borrower’s rural areas), pursuant to the criteria set forth in the Operational Manual, to participate in the carrying out of the Project;

(y) “Participating Municipality Agreement” means *Convenio de Participación*, the agreement referred to in Section 3.01 (f) of this Agreement, and such term includes all schedules and agreements supplemental to the Participating Municipality Agreement;

(z) “Procurement Plan” means the Borrower’s procurement plan, dated September 13, 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 3.03 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(aa) “Program” means *Red Solidaria*, the Borrower’s safety net program, created pursuant to the provisions of the Borrower’s Executive Decree No. 11, published in the Borrower’s Official Gazette No. 45, dated March 4, 2005;

(bb) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.6 of Schedule 1 to this Agreement;

(cc) “RHESSA PCU” means the Project Coordination Unit established by the Borrower within MOH under Loan No. 7084-ES, pursuant to Ministerial Resolution No. 718, dated August 28, 2003, issued by the Borrower’s Minister of Health, or any successor thereto acceptable to the Bank;

(dd) “RNPN” means the Borrower’s civil registry (*Registro Nacional de las Personas Naturales*), created by the Borrower’s Legislative Decree No. 552, dated December 21, 1995 (*Ley Orgánica del Registro Nacional de las Personas Naturales*), as amended to the date of this Agreement;

(ee) “RNPN Participation Agreement” means the Agreement referred to in Section 3.01 (e) of this Agreement;

(ff) “Special Accounts” means the accounts referred to in Part B of Schedule 1 to this Agreement;

(gg) “Steering Committee” means the inter-institutional committee referred to in Section 3.05 (a) (ii) of this Agreement which was established and operating pursuant to the Borrower’s Presidential Accord No. 11, published in the Borrower’s Official Gazette No. 45, dated March 4, 2005;

(hh) “STP” means *Secretaría Técnica de la Presidencia*, the Borrower’s technical secretary of the presidency; and

(ii) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and FISDL pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time with the approval of the Bank.

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 twenty one million Dollars (\$21,000,000), 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,

NGOs Fees, and consultants' services required for Parts B, C, D.3 and D.5 of the Project and to be financed out of the proceeds of the Loan.

Section 2.03. The Closing Date shall be January 31, 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 one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

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 April 15 and October 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project, or cause the Project to be carried out, through: (i) FISDL (with respect to Parts A, C and D of the Project); and (ii) MOH (with respect to Part B of the Project), all with due diligence and efficiency and in conformity with appropriate administrative, social protection, health and nutritional, education, financial accountability, participatory and social standards and practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall make available the proceeds of the Loan to FISDL under a subsidiary agreement to be entered into between the Borrower and FISDL (the Subsidiary 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, social criteria and other procedures and guidelines 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 B of the Project, the Borrower shall cause FISDL to enter into an agreement with MOH (the MOH Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of MOH in the provision of health services.

(d) Without limitation to the provisions of paragraphs (a), (b) and (c) above, the Borrower shall cause FISDL to enter into an agreement with MINED (the MINED Participation Agreement), under terms and conditions satisfactory to the Bank, including those set forth in the Operational Manual with respect to the role and responsibilities of MINED in the implementation of the Project.

(e) Without limitation to the provisions of paragraphs (a), (b), (c) and (d) above, the Borrower shall cause FISDL to enter into an agreement with RNP (the RNP Participation Agreement), under terms and conditions satisfactory to the Bank,

including those set forth in the Operational Manual with respect to the role and responsibilities of RNPN in the implementation of Part C of the Project.

(f) Without limitation to the provisions of paragraphs (a), (b), (c), (d), and (e) above, prior to the provision of Grants in a Participating Municipality, the Borrower shall cause FISDL to enter into an agreement (a Participating Municipality Agreement) with each Participating Municipality responsible for assisting FISDL in the implementation of the Project, under terms and conditions satisfactory to the Bank, which shall include provisions set forth in the Operational Manual, including, *inter alia*, the obligation of the Participating Municipality to: (i) assign, and thereafter maintain, until the completion of the Project, dedicated staff in the respective municipal units (*Comité Local*) which shall be responsible for the efficient provision of support of the activities under the Project; and (ii) provide logistical and administrative support for the efficient and transparent provision of Grants to the Beneficiaries in such municipality.

(g) Without limitation to the provisions of paragraphs (a), (b), (c), (d), (e) and (f) above, the Borrower shall cause FISDL to enter into an agreement (the Coordination Agreement) with STP, which shall include provisions which shall have been approved by the Bank, including, *inter alia*: institutional roles and responsibilities, coordination mechanisms, reporting arrangements and the institutional procedures to ensure timely and smooth inter-institutional coordination, for the carrying out of the Project.

(h) The Borrower shall exercise its rights and obligations under the Subsidiary Agreement and shall cause FISDL to exercise its rights and its obligations under each Participation Agreement and each Participating 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 shall not, and shall not allow FISDL to, amend, assign, abrogate, suspend, terminate, waive or fail to enforce the Subsidiary Agreement, the Coordination Agreement, any Participation Agreement, any Participating Municipality Agreement, or any provision thereof.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, prior to the provision of Grants, the Borrower shall cause FISDL to enter into an agreement, satisfactory to the Bank (the Financial Institution Agreement), with the corresponding Financial Institution, which shall include provisions as set forth in the Operational Manual, including, *inter alia*, the obligations of the Financial Institution to: (i) act as an agent of FISDL, for the purposes of making payments, out of the proceeds of the Loan, of Grants to the Beneficiaries, all in accordance with the provisions of Part A.1 of the Project and the procedures detailed in the Operational Manual; and (ii) assist FISDL with the carrying out of its financial management obligations under the provisions of this Agreement.

(b) The Borrower shall cause FISDL to exercise its rights and obligations under each Financial Institution 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 shall not allow FISDL to, amend, assign, abrogate, suspend, terminate, waive or fail to enforce any Financial Institution Agreement, or any provision thereof.

Section 3.03. (a) Except as the Bank shall otherwise agree, procurement of the goods 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 FISDL 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 3.04. (a) The Borrower shall cause FISDL (with respect of Parts A, C and D of the Project) and MOH (with respect to Part B of the Project) to carry out the Project, and shall cause the Participating Municipalities, STP, MINED and RNPN, to carry out their respective activities under the Project, in accordance with the terms of a manual satisfactory to the Bank (the Operational Manual). Except as the Bank shall otherwise agree, the Borrower, through the Steering Committee, shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

(b) The Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*: (i) the IPDP; (ii) the criteria for suspension and payments of funds to beneficiaries in case of non-compliance; and (iii) model contractual provisions for the: (A) Participating Municipality Agreements; (B) Financial Institution Agreements and the corresponding arrangements for the transfer of Grants through Financial Institutions to the Beneficiaries (including the provision of mobile banking services in rural Participating Municipalities without banks) and the control and auditing procedures to ensure the transparent provision of Grants; and (C) a model grant agreement to be signed between the Beneficiaries and FISDL.

Section 3.05. (a) The Borrower shall, throughout the execution of the Project, maintain at all times: (i) the RHESSA PCU, or any successor thereto acceptable to the Bank, 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; (ii) the committee comprising representatives of the Borrower's Ministry of Finance, STP, MOH, MINED, and FISDL, for the provision of strategic guidance on the

development and implementation of the monitoring and evaluation system financed under the Project; and (iii) a Program coordinator which shall be appointed by STP, with qualifications, experience, functions and responsibilities satisfactory to the Bank, and in accordance with the provisions of the Operational Manual.

(b) The Borrower shall cause FISDL to hire a procurement specialist for the ACI with qualifications, experience, functions and responsibilities satisfactory to the Bank and in accordance with the provisions of the Operational Manual.

Section 3.06. Without limitation upon the provisions of Section 9.01 of the General Conditions, the Borrower, through FISDL (for the purposes of Parts A, C and D of the Project) and MOH (for the purposes of Part B of the Project) shall during the execution of the Project:

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

(b) furnish to the Bank, by not later than May 31 and November 30 of each year during the execution of the Project, a report, in a format satisfactory to the Bank, integrating the results of the monitoring and evaluation activities performed pursuant to the provisions of paragraph (a) of this Section, which reports shall include: (i) a detailed description of Project activities, including the provision of Grants, during the period preceding the date of said report; (ii) a detailed progress report, including lessons learned during Project implementation, the role of the Participating Municipalities, RNPN, and the performance of Financial Institutions in the provision of Grants; (iii) the results of the impact evaluation referred to in Part D.3 of the Project, if applicable; and (iv) the identification of any issue that may delay Project implementation, including the provision of Grants, and setting out measures recommended to solve such issue and ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) periodically review with the Bank the progress in the implementation of the Project, based on the reports referred to in paragraph (b) of this Section, to *inter alia*: (i) assess the efficacy of the implementation of the Program in the Participating Municipalities, including the efficient and transparent provision of Grants to the Beneficiaries; (ii) assess the level of participation of indigenous peoples' under the Project pursuant to the provisions of the IPDP; (iii) assess the results of the inter-institutional mechanisms established pursuant to the provisions of the Participation Agreements; (iv) assess the contributions of the Participating Municipalities, the Participating Agencies and the Financial Institutions to the timely and efficient implementation of the Project; (v) evaluate the efficacy of the Project implementation and coordination mechanisms at the central, regional and municipal levels; and (vi) the results of the impact evaluation of referred to in Part D.3 of the Project; and

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

Section 3.07. The Borrower shall, through FISDL and MOH, and in close coordination with the corresponding Participating Municipality, carry out the IPDP.

Section 3.08. By not later than three months after the Effectiveness Date, the Borrower shall cause FISDL to establish and thereafter maintain until the completion of the Project, a conditional cash transfer management and control information system in accordance with terms detailed in the Operational Manual.

Section 3.09. The Borrower, through MOH and with the assistance of the Borrower's Ministry of Finance, shall develop a forward looking action plan, including an implementation timetable, detailing the financial sustainability of the services set forth in Part B of the Project beyond the Closing Date, which plan shall be submitted to the Bank for its review and comments by not later than 18 months after the Effective Date.

Section 3.10. 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 for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MOH shall, and shall cause FISDL 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 the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause FISDL to:

- (i) have the 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 four months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or 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 and 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:

- (i) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (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 3.06 of this Agreement, the Borrower shall cause FISDL 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 four month period 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 four month period; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent four month period, and shall cover such four month period.

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) FISDL has failed to comply with any of its obligations under the Subsidiary Agreement.

(b) Any Participating Agency has failed to comply with any of its obligations under its respective Participation Agreement or Coordination Agreement, as the case may be.

(c) The Decrees referred to in the definitions of FISDL and Program in Section 1.02 (k) and (aa) 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 FISDL.

(e) The IADB Loan Agreement shall have failed to become effective by October 12, 2006, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the IADB Loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the IADB Loan Agreement; or

(B) the IADB Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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) or (e) of Section 5.01 of this Agreement shall occur.

(c) The event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (f) (ii) of that Section.

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 Agreement has been executed on behalf of the Borrower and FISDL;

(b) the agreements referred to in Section 3.01 (c), (d) and (g) of this Agreement have been executed on behalf of FISDL and the respective Participating Agencies; and

(c) the Operational Manual has been adopted by the Steering Committee in a manner satisfactory to the Bank.

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 Agreement has been duly authorized or ratified by the Borrower and FISDL and is legally binding upon the Borrower and FISDL in accordance with its terms.

Section 6.03. The date July 3, 2006, 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 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) 2225-7491

With a copy to:

FISDL
10 Av. Sur, Calle Mexico, Barrio San Jacinto
San Salvador, El Salvador, C.A.

Facsimile:
(503) 2237-0137

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 A. León

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Ulrich Zachau

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>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1)	NGOs Fees; and consultants' services under Part B of the Project (Expanding Provision of Basic Health and Nutrition Services)	14,700,000	75%
(2)	Goods; and consultants' services under Part C of the Project (Strengthening Legal Access to Services)	4,000,000	100%
(3)	Consultants' services; under Part D.5 of the Project (Data collection activities)	1,600,000	100%
(4)	Consultants' services under Part D. 3 of the Project (Impact Evaluation)	400,000	50%
(5)	Unallocated	300,000	
	TOTAL	<u>21,000,000</u> =====	

2. For the purposes of this Schedule “NGOs Fees” means the reasonable expenditures incurred by the Borrower for contract fees paid, or to be paid, to an NGO for the provision of the health and nutrition services under Part B.1 of the Project.

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 \$2,100,000, may be made on account of payments made for expenditures before that date but after January 1, 2006; and

(b) payments under Category 2 of the table in paragraph 1 above unless the Agreement referred to in Section 3.01 (e) of this Agreement, satisfactory to the Bank has been entered into by FISDL and RNP.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.04 of this Agreement.

5. 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) goods costing less than \$250,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$200,000 equivalent per contract; and (d) services provided by NGOs under Part B.1 of the Project, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

6. 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 Accounts

1. The Borrower may open and maintain in Dollars in its central bank, on terms and conditions satisfactory to the Bank, two separate special deposit accounts (Special Account A, for Parts C and D of the Project, and Special Account B, for Part B of the Project).

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: (i) the records and accounts for the Special Account; or (ii) 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 Accounts
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means: (i) an amount of \$600,000 to be withdrawn from the Loan Account and deposited into the Borrower’s central bank for Special Account A; and (ii) an amount of \$1,400,000 to be withdrawn from the Loan Account and deposited into the Borrower’s central bank for Special Account B, all pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 relevant Special Accounts 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 relevant 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 relevant 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 Accounts
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Accounts 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 relevant 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 education, health, and nutrition of the Borrower's children living in the Borrower's Participating Municipalities, by providing support to the Borrower's Program.

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 objective:

Part A: Conditional Cash Transfer Program

1. Establishment and implementation of a conditional cash transfer program (the Program), and implementation of its first phase, through the provision of:

(a) grants to Beneficiaries with children aged between five (5) and fifteen (15) years old enrolled and attending classes in primary school and maintaining a class attendance of 80%; and

(b) grants to Beneficiaries with children aged between zero (0) and five (5) years old participating in the vaccinations and health controls and prenatal care, according to the protocols set forth in the Operational Manual;

2. The carrying out of a series of activities aimed at assisting the Beneficiaries to participate and obtain the maximum benefit from the conditional cash transfer Program, including:

(a) assisting Beneficiaries to understand Program objectives and regulations and meet co-responsibilities to obtain the Grants; and

(b) carrying out training activities and workshops on topics of health prevention and nutrition, regular school attendance, avoidance of child labor, community development and social audit of basic services.

3. The strengthening of the technical capabilities of FISDL for the implementation of the Program, including the design and implementation of: (a) a system to target Beneficiaries; (b) a monitoring system to verify the Beneficiaries' compliance with eligibility conditions for receiving the Grants, control payments to Beneficiaries and generate managerial reports and progress indicators; and (c) a management information system to track the physical and financial progress of the Program, all through the

provision of consultants' services, training, operating costs and the acquisition of office equipment.

Part B: Expanding Provision of Basic Health and Nutrition Services

1. The expansion of the coverage of basic health and nutrition services (including the AIN-C) to the rural population of the Participating Municipalities in accordance with the protocols set forth in the Operational Manual.
2. The strengthening of the technical capabilities of MOH to contract and supervise the provision of the services described in paragraph 1 above.

Part C: Strengthening Legal Access to Services

The strengthening of the institutional capacity of RNP to expand the coverage of the Borrower's civil registry system to issue birth certificates and/or national identification documents to the Beneficiaries, through the provision of technical assistance and the acquisition of office equipment.

Part D: Monitoring and Evaluation of the Program and Social Awareness Strategy

The strengthening of the institutional capacity of STP to monitor and assess the effectiveness of the Program and ensure adequate inter-institutional coordination during the implementation of the Program, including, *inter alia*:

1. the carrying out of a social awareness strategy at the national and local level for the dissemination of the Program;
2. the implementation of a monitoring and evaluation system linked to FISDL to oversee the physical and financial progress of the Program;
3. the carrying out of an assessment to measure the impact of the conditional cash transfers on school attendance, nutrition, immunization, and use of health facilities;
4. the carrying out of: (a) audits referred to in Section 4.01; and (b) operational audits to ensure an efficient and transparent implementation of the Grants; and
5. the carrying out of the necessary data collection activities required to register potential Beneficiaries for the Program.

* * *

The Project is expected to be completed by August 31, 2010.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15 Beginning April 15, 2012 through October 15, 2021	5%

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 and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding (including Non-Consultant Services offered by NGOs). 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.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract, and Non-Consultant Services offered by NGOs costing less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding in a manner consistent with the terms of Standard Bidding Documents satisfactory to the Bank to be used by the Borrower for this purpose.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping (including Non-Consultant services offered by NGOs).

3. Direct Contracting. Goods 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. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. 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.

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

5. 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.

6. 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.

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. All other contracts shall be subject to Post Review by the Bank.