

CONFORMED COPY

LOAN NUMBER 7811-SV

Loan Agreement

(Income Support and Employability Project)

between

REPUBLIC OF EL SALVADOR

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 19, 2010

LOAN NUMBER 7811-SV

LOAN AGREEMENT

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

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty million Dollars (US\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are February 15th and August 15th in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of paragraph (a) of Section 2.07 of this Agreement and unless otherwise notified by the Borrower to the Bank in accordance with the provisions of the Conversion Guidelines, the interest rate basis applicable to consecutive withdrawals from the Loan Account which in the aggregate equal to five million Dollars (\$5,000,000) shall be converted from the initial Variable Rate to a Fixed Rate for the full maturity of such amount in accordance with the provisions of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, under the overall coordination of STP, the Borrower shall: (a) carry out: (i) through MTPS, with the assistance of FISDL, Part B of the Project; and (ii) through STP, Part C of the Project; and (b) cause FISDL, with the assistance of Eligible Municipalities, to carry out: (i) Parts A.1, A.3, and A.4 of the Project; and (ii) Part A.2 with the participation of INSAFORP, all in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) FISDL shall have failed to comply with any of its pertinent obligations under the Implementation Agreement.
 - (b) INSAFORP shall have failed to comply with any of its pertinent obligations under the INSAFORP Agreement.
 - (c) The FISDL Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower and/or FISDL to perform any of their respective obligations under the Implementation Agreement and/or this Agreement.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied:
- (a) the Implementation Agreement has been executed on behalf of the Borrower and FISDL; and
 - (b) the INSAFORP Agreement has been executed on behalf of FISDL and INSAFORP.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01 of this Agreement, there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank, showing the following matters:
- (a) the Implementation Agreement has been duly executed by the Borrower and FISDL and is legally binding upon the Borrower and FISDL in accordance with its terms; and
 - (b) the INSAFORP Agreement has been duly executed by FISDL and INSAFORP and is legally binding upon FISDL and INSAFORP in accordance with its terms.
- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on May 24, 2011.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. The Borrower's Address is:
Ministerio de Hacienda
Boulevard de los Héroes 1231
San Salvador, El Salvador

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

6.03. The Bank's Address is:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

REPUBLIC OF EL SALVADOR

By /s/ Carlos Enrique Cáceres Chávez
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Robert B. Zoellick
Authorized Representative

Witnessed by:

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

SCHEDULE 1

Project Description

The objectives of the Project are to: (a) provide temporary income support to the urban vulnerable poor; (b) improve the coverage of labor intermediation and training services to the urban vulnerable poor; and (c) improve the institutional capacity of the Borrower to develop an integrated social protection system.

The Project consists of the following parts:

Part A: Support to the Design and Implementation of the Temporary Income Support Program

1. Provision of: (a) PATI Grants to PATI Participants; and (b) Management Expenses to Eligible Municipalities.
2. Provision of training to PATI Participants, including, *inter alia*: (a) the assessment of training needs; (b) the design of appropriate training components for the PATI Subprojects; (c) the delivery of the Training Activities; and (d) the monitoring of PATI Participants' assistance to the Training Activities.
3. Strengthening of FISDL's capacity to manage the PATI Program by, *inter alia*, the evaluation and redesign of FISDL's current M&E systems.
4. Strengthening of Eligible Municipalities' institutional and technical capacity to design and implement PATI Subprojects through, *inter alia*, the provision of technical assistance, equipment and training to Eligible Municipalities' personnel to identify, prepare and submit for approval PATI Subprojects.

Part B: Strengthening the Intermediation, Information, and Occupational Training Systems

1. Strengthening of the RNE by expanding the geographical coverage of the *Bolsas de Empleo* Program through, *inter alia*, the provision of specialized technical assistance, training, equipment and software for MTPS.
2. Provision of technical assistance, necessary goods, equipment and training to strengthen MTPS' capacity to compile and systematize statistical labor market information, through the creation of a national labor market observatory.
3. Development of a national strategy for occupational training through, *inter alia*, the provision of technical assistance, equipment and software for MTPS, and training for MTPS, MINED, and INSAFORP's personnel on employment training for vulnerable groups.

Part C: Support to the Design and Development of the Universal Social Protection System

1. Strengthening of the STP's institutional capacity to implement SPSU through, *inter alia*, the following activities: (a) the preparation of an assessment of STP's institutional capacity to implement the SPSU; (b) the development of the regulatory framework for the institutional coordination of SPSU; (c) the carrying out of training activities for STP's personnel; and (d) the development of a communications strategy for the SPSU and its components.
2. Provision of technical assistance and the acquisition of equipment for the design and implementation of key tools for the development of social protection policies.

SCHEDULE 2

Project Execution

Section I. Implementation

A. Implementation Arrangements

1. (a) For purposes of carrying out Parts A and B of the Project, the Borrower shall enter into an agreement (the Implementation Agreement) with FISDL under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, those set forth in Schedule 4 to this Agreement.

(b) (i) The Borrower shall exercise its rights and carry out its obligations under the Implementation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, terminate, waive or fail to enforce the Implementation Agreement or any provision thereof.
2. The Borrower, through STP, shall maintain, throughout the execution of the Project, key staff in numbers and with experience and functions satisfactory to the Bank, for the effective coordination of the Project.

B. Project Operational Manual

1. The Borrower shall carry out the Project, and cause the Project to be carried out, in accordance with the provisions of a manual (the Project Operational Manual), which shall include, *inter alia*: (a) the criteria for identification, registration and selection of PATI Participants; (b) the requirements to be fulfilled by PATI Participants as conditions for the provision of PATI Grants; (c) the mechanisms for verification of compliance with PATI Grants conditions; (d) the detailed procedures for the selection and implementation of PATI Subprojects; (e) the description of the mechanism for the provision of PATI Grants; (f) the format of: (A) the unaudited interim financial reports referred to in Section II.B.2 of Schedule 2 to this Agreement; and (B) the Financial Statements; (g) the terms of reference for carrying out the audits under Section II.B.3 of Schedule 2 to this Agreement; (h) the Project indicators; and (i) the Project disbursement and procurement procedures.
2. Except as the Borrower and the Bank may otherwise agree in writing, the Borrower shall not, and shall cause FISDL not to, abrogate, amend, suspend, waive or otherwise fail to enforce the Project Operational Manual or any provision thereof.

3. In case of any conflict between the terms of the Project Operational Manual, the Implementation Agreement, the PATI Grant Agreements, the PATI Subproject Agreements, the INSAFORP Agreement and this Agreement, the provisions of this Agreement will prevail.

C. Anti-Corruption Guidelines

1. The Borrower, through STP and MTPS as the case may be, shall ensure, and shall cause FISDL to ensure, that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Borrower shall ensure, and cause FISDL to ensure, that any activities under the Project do not involve any Resettlement, the use of pesticides or other agricultural chemicals listed in the Project Operational Manual, and/or degrade natural habitats, or cause deforestation.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

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

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain, through STP, and shall cause FISDL to maintain, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall, through STP, and shall cause FISDL to, prepare as part of the Project Report, interim unaudited financial reports for the Project covering a calendar semester, in form and substance satisfactory to the Bank. The Borrower, through STP, shall

furnish to the Bank consolidated interim reports (including the interim financial reports prepared by FISDL for Parts A and B of the Project, and the interim financial reports prepared by STP for Part C of the Project), not later than forty five days after the end of each semester.

3. The Borrower, through STP, shall, and shall cause FISDL to, have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

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

B. Particular Methods of Procurement of Goods and Non-consultant Services

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

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

C. Particular Methods of Procurement of Consultants' Services

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

<u>Procurement Method</u>
(a) Least-Cost Based Selection
(b) Quality-Based Selection
(c) Selection Based on the Consultants' Qualifications
(d) Single Source Selection
(e) Selection under a Fixed Budget
(f) Procedures set forth in paragraphs 5.2 through 5.4 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants set forth in paragraph 5.4 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

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

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May

2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(1) PATI Grants and Management Expenses under Part A.1 of the Project	26,500,000	100%
(2) Goods, Non-Consultant Services, consultants’ services, Operating Costs, Training, and PATI Training under Part A of the Project	10,700,000	100%
(3) Goods, Non-Consultant Services, consultants’ services, Operating Costs, and Training under Part B of the Project	10,200,000	100%
(4) Goods, Non-Consultant services, consultants’ services, Operating Costs, and Training under Part C of the Project	2,300,000	100%
(5) Front-end Fee	125,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(6) Unallocated	175,000	
TOTAL AMOUNT	50,000,000	

For purposes of this paragraph:

- (a) the term “Non-consultant Services” means logistical service expenses for capacity building events, printing of training materials and media campaigns, as well as other services which are not rendered by consultants, obtained at reasonable cost on account of Project implementation and which are not covered in the definitions of Training and Operating Costs;
- (b) the term “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, *per diem* and supervision costs of locally contracted employees;
- (c) the term “PATI Training” means the reasonable unitary cost of training activities, as set forth in the Project Operational Manual, delivered by INSAFORP under Part A.2 of the Project; and
- (d) the term “Training” means reasonable: (a) travel, room, board and *per diem* expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (b) course fees; (c) training facility rentals; and (d) training material preparation, acquisition, reproduction and distribution expenses.

B. Withdrawal Conditions; Withdrawal Period

- 1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$10,000,000 equivalent may be made for payments made within one year prior to this date but on or after November 15th, 2009, for Eligible Expenditures.

- (b) for payments made to finance any expenditure under Category (1), unless FISDL has contracted with a financial institution, under terms and conditions acceptable to the Bank, to be in charge of executing PATI Grants' payments.

2. The Closing Date is December 31, 2014, or any later date as the Bank may agree, and notify to the Borrower in writing.

Section V. Other Undertakings

A. Other Audits

- 1. Pursuant to terms of reference previously agreed with the Bank, including *inter alia*, the scope of the audits to be conducted and furnished to the Bank, and as further specified in the Project Operational Manual, the Borrower shall cause FISDL to carry out annual operational audits integrating the results of the implementation of Part A.1 of the Project and setting out the measures to ensure the adequate and efficient carrying out of Part A.1 of the Project and the achievement of the objectives thereof. Said annual operational audits shall be furnished to the Bank not later than six months after the end of the period covered by such audit.

SCHEDULE 3

Amortization Schedule

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

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each February 15 and August 15 Beginning February 15, 2015 through August 15, 2039	2%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Terms and Conditions of the Implementation Agreement

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

- A. the obligation of the Borrower:
 - (a) through MoF, to promptly disburse to FISDL proceeds of the Loan to finance the carrying out of Parts A and B of the Project with due diligence and efficiency;
 - (b) with respect to the implementation of Part B of the Project, through MTPS, to: (i) carry out the activities under said part of the Project; (ii) to take or permit to be taken all actions to enable FISDL to comply with its obligations referred to in Section C (e) of this Schedule.
 - (c) to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines; and
 - (d) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Implementation Agreement or any provision thereof unless previously agreed by the Bank;
- B. the right of the Borrower to take remedial actions against FISDL in case FISDL shall have failed to comply with any of its obligations under the Implementation Agreement (which actions shall previously be agreed with the Bank);
- C. the obligation of FISDL:
 - (a) (i) to carry out Parts A.1, A.3, and A.4 of the Project, and Part A.2 of the Project with the participation of INSAFORP (in accordance with the INSAFORP Agreement); and (ii) assist MTPS to carry out Part B of the Project, all in accordance with the provisions of this Agreement and those set forth in the Project Operational Manual;
 - (b) with respect to the implementation of Part A of the Project, to: (i) enter into framework agreements with each Eligible Municipality, under terms and conditions set forth in the Project Operational Manual; (ii) assist the Eligible Municipalities to prepare PATI Subprojects; (iii) evaluate and approve PATI Subproject; (iv) make available, on a grant basis, part of the proceeds of the Loan allocated to Category (1) to the corresponding PATI Participant under terms and conditions acceptable to the Bank, according to the procedures set forth in the Project Operational Manual,

including, *inter alia*, the PATI Participant's obligation to sign the PATI Grant Agreement, and to participate in the implementation of the relevant PATI Subproject, and the obligation of FISDL to transfer a PATI Grant to said PATI Participant; and (v) supervise PATI Subproject implementation;

- (c) prior to providing any PATI Grant in the jurisdiction of an Eligible Municipality, to enter into an agreement with each Eligible Municipality (the PATI Subproject Agreement), under terms and conditions satisfactory to the Bank, setting forth the parties' obligations with respect to Part A of the Project including, *inter alia*:
 - (i) FISDL's obligation to: (I) promptly disburse the proceeds of the Loan for the implementation of the PATI Subproject to: (A) each Eligible Municipality to finance Management Expenses, and (B) each PATI Participant to finance a PATI Grant, in accordance with the mechanisms set forth in the Project Operational Manual; (II) to select the PATI Participants for each PATI Subproject, in accordance with the criteria set forth in the Project Operational Manual; and (III) except as the Bank shall otherwise agree, not amend, waive or fail to enforce the PATI Subproject Agreement or provisions thereof;
 - (ii) FISDL's right to take remedial actions against the Eligible Municipality in case it shall have failed to comply with any of its obligations under the PATI Subproject Agreement (which actions shall previously be agreed with the Bank);
 - (iii) the Eligible Municipality's obligation to: (I) provide funds to implement the PATI Subproject, in particular to finance the Community Activity; (II) confirm the selection of PATI Participants made by FISDL, in accordance with the mechanisms set forth in the Project Operational Manual; (III) monitor PATI Participants' attendance to the Community Activities; (IV) immediately after the corresponding PATI Subproject has been approved, carry out, or cause to be carried out, an environmental/social screening and/or an environmental/social assessment (as the case may be) of the pertinent PATI Subproject in accordance with the provisions set forth in the Project Operational Manual; (V) if the environmental/social screening and/or environmental/social assessment mentioned in (IV) herein has identified potential negative environmental/social impacts (in which case the results of the environmental/social screening/assessment shall include, *inter alia*, the pertinent mitigatory measures and their implementation timing), carry out

said mitigatory measures in a manner and on terms acceptable to the Bank; (VI) ensure that PATI Subprojects do not involve any Resettlement, the use of pesticides or other agricultural chemicals listed in the Project Operational Manual, do not degrade natural habitats, and do not cause deforestation; (VII) ensure that the activities under Part A of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines; (VIII) except as the Bank shall otherwise agree, not amend, waive or fail to enforce the PATI Subproject Agreement or provisions thereof; and (IX) to take or permit to be taken all action to enable FISDL to comply with its obligations referred to in this Agreement and in the PATI Subproject Agreement;

- (d) to enter into an agreement with INSAFORP (the INSAFORP Agreement) for the carrying out of Part A.2 of the Project, under terms and conditions which shall have been approved by the Bank which shall include, *inter alia*, the following provisions:
 - (i) FISDL's obligation to: (I) promptly disburse to INSAFORP the proceeds of the Loan to finance the carrying out of Part A.2 of the Project with due diligence and efficiency; (II) to ensure that the activities under Part A.2 of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines; and (III) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the INSAFORP Agreement or any provision thereof unless previously agreed by the Bank;
 - (ii) FISDL's right to take remedial actions against INSAFORP in case it shall have failed to comply with any of its obligations under the INSAFORP Agreement (which actions shall previously be agreed with the Bank);
 - (iii) INSAFORP's obligation: (I) to carry out the Project activities referred to in Part A.2 of the Project in coordination with the Eligible Municipalities and with the assistance of FISDL; (II) to comply with the provisions of the Anti-Corruption Guidelines; (III) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the INSAFORP Agreement or any provision thereof unless previously agreed by the Bank; and (IV) to take or permit to be taken all actions to enable FISDL to comply with its obligations referred to in this Agreement and in the INSAFORP Agreement;
- (e) with respect to the implementation of Part B of the Project, to: (i) conduct procurement processes on behalf of MTPS; (ii) carry out

financial management obligations pursuant to Section II.B of Schedule 2 to this Agreement; and (iii) assist MTPS to comply with its obligations under Section A (b) of this Schedule with respect to procurement and financial management matters;

- (f) to comply with the provisions of the Anti-Corruption Guidelines in connection with the carrying out of the Project;
- (g) to ensure that any activity under Parts A and B of the Project do not involve any Resettlement, the use of pesticides or other agricultural chemicals listed in the Project Operational Manual, and/or degrade natural habitats, or cause deforestation.
- (h) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the Implementation Agreement or any provision thereof unless previously agreed by the Bank; and
- (i) to take or permit to be taken all actions to enable the Borrower to comply with its obligations referred to in this Agreement and in the Implementation Agreement.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “*Bolsas de Empleo* Program” means the Borrower’s system of local employment offices, formerly known as *Oficinas Locales de Gestión de Empleo*, located in some of the Borrower’s geographical departments, which provides information on labor supply and demand.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Community Activity” means an activity proposed by an Eligible Municipality as part of a PATI Subproject to be carried out with the participation of the PATI Participants, consisting of, *inter alia*: (a) community services, including activities of care-givers for the elderly, children, or disabled, as well as support to the provision of health and education services; (b) municipal services, including maintenance of buildings and cleaning of public spaces; or (c) small infrastructure projects, including rehabilitation, expansion of social infrastructure such as health centers, schools, and community centers, all such activities being eligible for financing under the PATI Program in accordance with the provisions of the Project Operational Manual.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Eligible Municipality” means a municipality which meets the selection criteria set forth in the Project Operational Manual.
7. “FISDL” means *Fondo de Inversion Social para el Desarrollo Local de El Salvador*, the Borrower’s Social Investment Fund for Local Development.
8. “FISDL Legislation” means *Ley de Creación de Inversion Social*, the Borrower’s Legislative Decree No. 610 dated October 31, 1990 (duly published in the Borrower’s official Gazette on November 16, 1990), as amended by the Borrower’s Decree No. 826 dated September 19, 1996 (duly published in the Borrower’s official Gazette on October 2, 1996).

9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008 and as further modified pursuant to Section II of this Appendix).
10. “Implementation Agreement” means the agreement referred to in Section I.A.1 of Schedule 2 to this Agreement pursuant to which the Borrower shall make part of the proceeds of the Loan available to FISDL for the implementation of Parts A and B of the Project.
11. “INSAFORP” means *Instituto Salvadoreño de Formación Profesional*, the Borrower’s Institute of Professional Training.
12. “INSAFORP Agreement” means the agreement referred to in Section C (d) of Schedule 4 to this Agreement, pursuant to which FISDL shall make part of the proceeds of the Loan available to INSAFORP for the implementation of Part A.2 of the Project.
13. “Management Expenses” means the reasonable administrative costs incurred by an Eligible Municipality to implement a PATI Subproject, expressed as a fixed amount set forth in the Project Operational Manual.
14. “MINED” means *Ministerio de Educación*, the Borrower’s Ministry of Education.
15. “MTPS” means *Ministerio de Trabajo y Prevision Social*, the Borrower’s Ministry of Labor.
16. “M&E” means monitoring and evaluation.
17. “PATI Grant” means an income transfer payment to a PATI Participant for a maximum period of six months, under terms and conditions set forth in the Project Operational Manual.
18. “PATI Grant Agreement” means the agreement signed by a PATI Participant to join the PATI Program, and assuming the obligation to participate in the PATI Subproject in exchange for the PATI Grant.
19. “PATI Participant” means an individual who meets the selection criteria set forth in the Project Operational Manual, who has been selected through a public and transparent mechanism, under terms and conditions set forth in the Project Operational Manual, to benefit from a PATI Grant.

20. “PATI Program” means *Programa de Apoyo Temporal al Ingreso* (PATI), a component of the Borrower’s program *Comunidades Solidarias* as set forth in the operational manual for the program (*Guía Operativa PATI*) dated September 17, 2009, with the goal of providing income support and training to poor and vulnerable urban individuals through temporary involvement in community activities or small projects.
21. “PATI Subproject” means a Community Activity and its corresponding Training Activity as proposed by an Eligible Municipality.
22. “PATI Subproject Agreement” means the agreement referred to in Section C (c) of Schedule 4 to this Agreement, pursuant to which FISDL shall make part of the proceeds of the Loan available to the relevant PATI Participants and to the relevant Eligible Municipality for the implementation of Parts A.1 (a) and A.1 (b) of the Project, respectively.
23. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
24. “Procurement Plan” means the procurement plan prepared by FISDL for Parts A and B of the Project and the procurement plan prepared by STP for Part C of the Project, dated October 18, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
25. “Project Operational Manual” means the manual dated October 20, 2009, satisfactory to the Bank, as the same may be amended from time to time by agreement between the Borrower and the Bank.
26. “Resettlement” means the impact of: (a) an involuntary taking of land under the Project, which taking causes affected persons to have their: (i) standard of living adversely affected; or (ii) right, title or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, temporarily or permanently; or (iii) access to productive assets adversely affected, temporarily or permanently; or (iv) business, occupation, work or place of residence or habitat adversely affected, temporarily or permanently; or (b) an involuntary restriction of access to legally designated parks and protected areas (including reserves) which causes an adverse impact on the livelihoods of the displaced persons.
27. “RNE” means *Red Nacional de Empleo*, the Borrower’s MTPS National Employment Network.

28. “SPSU” means *Sistema de Protección Social Universal*, the Borrower’s Universal Social Protection System.
29. “STP” means *Secretaria Técnica de la Presidencia*, the Borrower’s Technical Secretariat of the Presidency.
30. “Training Activities” means the training activities delivered through a PATI Subproject, provided to PATI Participants to enhance their employability after they leave the PATI Program.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

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

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

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

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

“Section 7.02. *Suspension by the Bank*

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

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
 - (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”
 - (b) The definition of the term “Conversion Date” is modified to read as follows:

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