Re: REPUBLIC OF EL SALVADOR: Loan No. 7811-SV

(Income Support and Employability Project)

Amendment to the Loan Agreement

Excellency:

Please refer to the Loan Agreement entered into between the Republic of El Salvador (the “Borrower”) and the International Bank for Reconstruction and Development (the “Bank”) on July 19, 2010 (the “Loan Agreement”). In this Amendment Letter, all the terms defined in the Loan Agreement have the same meaning as therein set forth. Thenceforward, all other provisions of the Loan Agreement, except as amended through this letter, shall remain in full force and effect.

We are pleased to inform you that pursuant to your letter dated November 26, 2010 and our recent discussion on the subject, the Bank hereby proposes to amend the Loan Agreement as follows:

1. Paragraph B.1 of Section I of Schedule 2 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:

“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 mechanisms to deliver the Outputs; (f) the methodology to determine and adjust the Unit Cost; (g) the methodology to confirm the PATI Participant’s attendance to the Training Activities, which shall include, inter alia, the indication of the training location, the number of Trained PATI Participants, and the names on the attendance records; (h) the methodology for the carrying out of the Concurrent Supervision; (i) the description of the mechanism for the provision of PATI Grants; (j) 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; (k) the terms of reference for carrying out the audits under Section II.B.3 of
Schedule 2 to this Agreement; (l) the Project indicators; and (m) the Project disbursement, financial management and procurement procedures.”

2. Paragraph C.1 of Section I of Schedule 2 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:

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

3. Paragraph B.1 of Section II of Schedule 2 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:

“The Borrower shall maintain, through STP, and shall cause FISDL and INSAFORP to maintain, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.”

4. The table in paragraph A.2 of Section IV of Schedule 2 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in Dollars)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) PATI Grants and Management Expenses under Part A.1 of the Project</td>
<td>26,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, Non-Consultant Services, consultants’ services, Operating Costs, and Training under Part A of the Project</td>
<td>4,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Outputs under Part A.2 of the Project</td>
<td>6,200,000</td>
<td>70% of the Unit Costs of the Outputs as set forth in the Project Operational Manual</td>
</tr>
<tr>
<td>(4) Goods, Non-Consultant Services, consultants’ services, Operating Costs, and Training under Part B of the Project</td>
<td>10,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (expressed in Dollars)</td>
<td>Percentage of Expenditures to be financed (inclusive of Taxes)</td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td>-----------------------------------------------------</td>
<td>---------------------------------------------------------------</td>
</tr>
<tr>
<td>(5) Goods, Non-Consultant services, consultants’ services, Operating Costs, and Training under Part C of the Project</td>
<td>2,300,000</td>
<td>100%</td>
</tr>
<tr>
<td>(6) Front-end Fee</td>
<td>125,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>175,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>50,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

5. Paragraph A.2 (b) of Section IV of Schedule 2 to the Loan Agreement is hereby deleted and the rest of the section is renumbered accordingly;

6. Paragraph A.2 (c) of Section IV of Schedule 2 to the Loan Agreement is hereby deleted and the rest of the section is renumbered accordingly;

7. Paragraph B.1 of Section IV of Schedule 2 to the Loan Agreement is hereby amended to include an additional sub-paragraph to read as follows:

“(c) for payments made to finance any expenditure under Category (3), unless INSAFORP has: (i) updated its training providers data base through a public request of expressions of interest, which shall include legal, financial, and experience-related information of said training providers; and (ii) developed guidelines for contracting training providers, which shall provide, *inter alia*, a model form to submit quotations by said training providers and a sample agreement (which shall include terms and conditions acceptable to the Bank, including a provision to comply with the Anti-Corruption Guidelines) to contract them, all under terms and conditions acceptable to the Bank.”

8. Paragraph A.1 of Section V of Schedule 2 to the Loan Agreement is hereby renumbered as paragraph A, amended and replaced to read in its entirety as follows:

“A. Other Audits

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: (a) 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; and (b) carry out semi-annual operational audits for the purposes of specifically assessing the compliance and consistency of the Output delivery with reference to the implementation of Part A.2 of the Project. Said semi-annual operational audits shall be furnished to the Bank not later than three months after the end of the period covered by such audit.”

9. Section V of Schedule 2 to the Loan Agreement is hereby amended to include an additional paragraph to reads as follows

“B. Periodic Reviews of Unit Costs

The Borrower and the Bank shall jointly review once every year (or any other frequency acceptable to the Borrower and the Bank) the Unit Cost and adjust it as necessary, in accordance with the Project Operational Manual and in a manner satisfactory to the Bank.”

10. Paragraph C (b) of Schedule 4 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:

“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; (v) supervise PATI Subproject implementation; and (vi) carry out the annual and semi-annual operational audits referred to in Section V.A of Schedule 2 to this Agreement”

11. Paragraph C (d) (i) of Schedule 4 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:

“FISDL’s obligation: (I) to pay for the Unit Cost of the Outputs, upon delivery of the corresponding Outputs, and according to the terms and conditions specified in the Project Operational Manual; (II) to carry out the Concurrent Supervision in accordance with the terms of reference included in the Project Operational Manual; (III) 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;”

12. Paragraph C (d) (iii) of Schedule 4 to the Loan Agreement is hereby amended and replaced to read in its entirety as follows:
“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 and deliver the Outputs set forth in each PATI Subproject Agreement; (II) to comply with the provisions of the Anti-Corruption Guidelines; (III) to enable FISDL to carry out the Concurrent Supervision; (IV) to comply with its financial management and procurement obligations pursuant to Section II.B and III of Schedule 2 to this Agreement, respectively; (V) to comply with the provisions of the Anti-Corruption Guidelines in connection with the carrying out of Part A.2 of the Project; (VI) 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 (VII) 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;”

13. The following definitions are added, placed in alphabetical order, (and the existing definitions are consequently renumbered to keep the alphabetical order) to read as follows:

(i) “Concurrent Supervision” means the periodic reviews to be carried out by FISDL and consisting of spot checks to the Training Activities to ensure that these take place in the designated locations and that the attendance records accurately reflect the presence of the PATI Participants, all in accordance with the terms of reference included in the Project Operational Manual.

(ii) “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, office administration costs, utilities, travel, per diem and supervision costs.

(iii) “Output” means each Trained PATI Participant, eligible for receiving specialized training financed out of the proceeds of the Loan, as set forth in the applicable PATI Subproject Agreement, and in accordance with the Project Operational Manual.

(iv) “Trained PATI Participant” means a PATI Participant that: (a) has undergone training; (b) has attended at least a minimum percentage of training hours; and (c) said training attendance has been monitored by INSAFORP, and validated on a sample basis by FISDL, all in accordance with the specifications set forth in the Project Operational Manual.

(v) “Unit Cost” means the unit cost of goods, work, Operating Costs, non-consultant services and consultant services required for the delivery of the Outputs in accordance with the INSAFORP Agreement and as specified in the Project Operational Manual.
Please indicate your agreement with the foregoing by countersigning and dating this letter in the spaces provided below, and returning one countersigned original to us.

This amendment letter shall be executed in two counterparts each of which shall be an original.

The provisions of this Amendment Letter will become effective as of the date of this letter upon receipt by the Bank of: (a) one fully executed original of this Amendment Letter; and (b) an updated version of the Project Operational Manual.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By p.p. Trina Haque
Laura Frigenti
Acting Director
Caribbean Country Management Unit
Latin America and the Caribbean

AGREED AND CONFIRMED:

REPUBLIC OF EL SALVADOR

By: /s/ Carlos Enrique Cáceres Chávez
    (Authorized Representative)

Name: Carlos Enrique Cáceres Chávez

Title: Ministro de Hacienda

Date: January 14, 2011