

PROGRAM IMPLEMENTATION AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA,

ACTING THROUGH

THE MILLENNIUM CHALLENGE CORPORATION

AND

THE REPUBLIC OF EL SALVADOR,

ACTING THROUGH

THE TECHNICAL AND PLANNING SECRETARIAT OF THE PRESIDENT

Dated as of May 15, 2015

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PROGRAM IMPLEMENTATION AGREEMENT

PREAMBLE

This PROGRAM IMPLEMENTATION AGREEMENT (this “*Agreement*”) is between the United States of America, acting through the Millennium Challenge Corporation, a United States government corporation (“*MCC*”), and the Republic of El Salvador, acting through the Technical and Planning Secretariat of the President (the “*Government*”) (individually, a “*Party*” and collectively, the “*Parties*”).

Recalling that the Millennium Challenge Compact between the United States of America, acting through MCC, and the Government signed on September 30, 2014 (the “*Compact*”), sets forth the general terms on which MCC will provide assistance of up to US\$277,000,000 to the Government for a program to reduce poverty through economic growth in El Salvador;

Recalling that the Government has designated MCA-El Salvador to carry out certain rights and obligations of the Government under the Compact and related agreements; and

Recognizing that the Parties wish to specify further the terms for implementing the Compact and the Program;

The Parties hereby agree as follows:

ARTICLE 1.

GENERAL RESPONSIBILITIES OF THE PARTIES

Section 1.1 Definitions. Capitalized terms used in this Agreement and not defined in this Agreement have the meanings provided in the Compact. All other capitalized terms have the meanings provided in Annex 1.

Section 1.2 Role of the Government.

(a) Government Responsibilities. The Government will promptly take all necessary or appropriate actions to carry out all of its obligations under the Compact, this Agreement, and any other Supplemental Agreement (including any post-Compact Term activities, audits or other responsibilities), and to delegate its rights and responsibilities to entities, including MCA-El Salvador, adequate to enable them (each a “*Permitted Designee*”) to oversee and manage the implementation of the Program on behalf of the Government. These actions include assisting with the entry of foreign personnel acting in furtherance of a Funded Agreement pursuant to the Compact.

(b) Government Undertakings. The Government hereby affirms as follows:

(i) Power, Authorization, Etc. The Government has the power and authority to execute, deliver and perform its obligations under this Agreement and under each other agreement, certificate, or instrument contemplated by this Agreement, the Compact, any other Supplemental Agreement or the Program Guidelines. The signatory to this Agreement is duly empowered to act on behalf of and to bind the Government with respect to the obligations contained herein.

(ii) Binding Obligation. This Agreement is a legally binding obligation of the Government.

(iii) Impoundment; Liens or Encumbrances. The Government will ensure that (A) no Program Assets are subject to any impoundment, rescission, sequestration, liquidation or to any provision of law now or hereafter in effect in El Salvador that would have the effect of allowing any such impoundment, rescission or sequestration and (B) no Program Asset is subject to any lien, attachment, enforcement of judgment, pledge, or encumbrance of any kind (each a “*Lien*”), except with MCC’s prior written approval. In the event any Lien not so approved is imposed, the Government will promptly seek the release of such Lien and, if such Lien is required by a final and non-appealable court order, will pay any amounts due in order to obtain such release; ***provided, however,*** that the Government will not use MCC Funding or any Program Assets to satisfy any such obligation.

(iv) Environmental and Social Performance. Unless MCC and the Government agree otherwise in writing, the Government will ensure that all Projects and Activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding under the Compact comply with the MCC Environmental Guidelines, including the environmental and social performance standards set forth in the *Performance Standards on Environmental and Social Sustainability of the International Finance Corporation* (as in effect from time to time, the “*IFC Performance Standards*”) that have been incorporated by reference into the MCC Environmental Guidelines. The Government also will ensure that the Projects and Activities comply with all national environmental laws and regulations, licenses and permits, except to the extent such compliance would be inconsistent with the Compact. Unless MCC agrees otherwise in writing, the Government will fund all necessary costs of environmental and social mitigation measures (including, without limitation, costs of resettlement) not specifically provided for, or that exceed the MCC Funding specifically allocated for such costs in, the Detailed Financial Plan for any Project or Activity.

(v) Social Inclusion and Gender Equality. Unless MCC and the Government agree otherwise in writing, the Government will ensure that all Projects and Activities undertaken, funded, or otherwise supported in whole or in part (directly or indirectly) by MCC Funding comply with the MCC Gender Policy and the MCC Gender Integration Guidelines.

Section 1.3 Role of MCA-El Salvador.

(a) Designation of MCA-El Salvador.

(i) Pursuant to Section 3.2(b) of the Compact, the Government has designated MCA-El Salvador ("*MCA-El Salvador*"), or *FOMILENIO II*, as the primary agent of the Government to implement the Program and to exercise and perform the Government's right and responsibility to oversee, manage and implement the Program, including without limitation, managing the implementation of Projects and Activities, allocating resources and managing procurements (the "*Designated Rights and Responsibilities*"). The Government will remain ultimately responsible for the performance of the Government's obligations under or in relation to the Compact and this Agreement.

(ii) The Government will ensure that MCA-El Salvador is and remains throughout the Compact Term duly organized, sufficiently staffed and empowered to exercise the Designated Rights and Responsibilities.

(iii) The "Accountable Entity" referenced in the Program Guidelines will be deemed to refer to MCA-El Salvador, and all obligations assigned to the "Accountable Entity" in the Program Guidelines will be obligations of MCA-El Salvador.

(b) Additional Government Undertakings with Respect to MCA-El Salvador. The Government hereby affirms to MCC as follows:

(i) Power and Authorization. MCA-El Salvador has the power and authority to (A) bind the Government to the full extent of the Designated Rights and Responsibilities, (B) execute and deliver each agreement, certificate, or instrument contemplated by this Agreement, the Compact, any other Supplemental Agreement or the Program Guidelines, and (C) perform its obligations under this and each such other agreement, certificate, or instrument contemplated by this Agreement, the Compact, any other Supplemental Agreement or the Program Guidelines.

(ii) Government Responsibilities. MCA-El Salvador (A) will carry out the Designated Rights and Responsibilities (including all obligations specified as MCA-El Salvador obligations in the Compact, this Agreement or any other Supplemental Agreement) with due care, efficiency and diligence in conformity with sound technical, financial and management practices, and in conformity with the Compact, this Agreement, each other Supplemental Agreement and the Program Guidelines, (B) except as provided in Section 2.10 or with respect to an Implementing Entity, will not assign, delegate or otherwise transfer any of the Designated Rights and Responsibilities without the prior written consent of MCC, and (C) will not undertake any activities, duties or responsibilities other than the Designated Rights and Responsibilities without the prior written consent of MCC.

(iii) Government Representations. MCA-El Salvador will confirm each representation that it makes on behalf of the Government in any agreement, certificate or instrument delivered by MCA-El Salvador with all necessary Permitted Designees prior to providing such representation to MCC.

(iv) Autonomy. The Government will ensure that (A) no decision of MCA-El Salvador is modified, supplemented, unduly influenced or rescinded by any governmental authority, except by a final and non-appealable judicial decision and (B) the authority of MCA-El Salvador will not be expanded, restricted or otherwise modified, except in accordance with this Agreement and the Compact.

(v) Governance of MCA-El Salvador. MCA-El Salvador will adopt internal rules and regulations or bylaws, in form and substance satisfactory to MCC (the “**Bylaws**”). MCA-El Salvador will conduct its operations and management in accordance with the Governing Documents (including the Bylaws) and the Governance Guidelines.

(vi) Funded Agreements; General Provisions Annex. MCA-El Salvador will provide the Fiscal Agent (and MCC if it so requests) a copy of each agreement that is funded (directly or indirectly) with MCC Funding (each, a “**Funded Agreement**”), regardless of whether MCC has approval rights with respect to such agreement. Unless otherwise instructed by MCC, MCA-El Salvador will include in each Funded Agreement (i) a covenant that the counterparty to such agreement (each, a “**Counterparty**”) will comply with (A) the General Provisions Annex and (B) any instruction received by such Counterparty from MCC regarding the performance by such Counterparty of the terms of the General Provisions Annex notwithstanding any other instruction given by MCA-El Salvador; and (ii) a right for MCA-El Salvador to terminate such Funded Agreement if such Counterparty fails to comply with the General Provisions Annex or any such instruction of MCC.

(vii) Insurance; Performance Guaranties. MCA-El Salvador will, to MCC’s satisfaction, cause all Program Assets to be insured (including, without limitation, through self-insurance) and will arrange such other appropriate insurance to cover against risks or liabilities associated with the operations of the Program, including by requiring Providers to obtain adequate insurance and to post adequate performance bonds or other guaranties. With MCC’s prior consent, MCC Funding may be used to pay the costs of obtaining such insurance. MCA-El Salvador (or, as appropriate and with MCC’s prior approval, another entity) will be named as the payee on any such insurance and the beneficiary of any such guaranty or bonds. If not already named as the insured party, MCA-El Salvador (and MCC, if it so requests) will be named as additional insureds on any such insurance. The Government will promptly notify MCC of the payment of any proceeds from claims paid under such insurance or guaranty, and will ensure that such proceeds will be used to replace or repair any lost or damaged Program Assets; **provided, however,** that, at MCC’s election, such proceeds will be deposited in a Permitted Account as designated by MCA-El Salvador or as otherwise directed by MCC.

(viii) MCA-El Salvador Indemnity. If MCA-El Salvador is held liable under any indemnification or other similar provision of any agreement, then the Government will pay such indemnity in full on behalf of MCA-El Salvador and will not use MCC Funding or any Program Assets to satisfy such obligation. In addition, the Government will indemnify and hold harmless each member of MCA-El Salvador’s Board (including each Observer), each member of any Stakeholder Committee and each of MCA-El Salvador’s Officers and employees from any

claim, loss, action, liability, cost, damage or expenses incurred by such person in the performance of its duties on behalf of MCA-El Salvador, ***provided, however,*** that the Government will have no obligation to indemnify any such person if and to the extent that any such claims, losses, actions, liabilities, costs, damages or expenses are attributable to the fraud, gross negligence or willful misconduct of such person; and ***provided, further,*** that the Government will not use MCC Funding or any Program Assets to satisfy its obligations under this Section 1.3(b)(viii).

ARTICLE 2.

IMPLEMENTATION FRAMEWORK

Section 2.1 **Implementation Plan.** The framework for implementation of the Program will be further elaborated in a set of documents, in form and substance approved by MCC, consisting of (i) a Work Plan, (ii) a Detailed Financial Plan, (iii) an Audit Plan and (iv) a Procurement Plan (each, an ***“Implementation Plan Document”*** and collectively the ***“Implementation Plan”***). MCA-El Salvador will submit its proposed Implementation Plan for review and approval by MCC before the initial Disbursement of Program Funding and at least on an annual basis thereafter (or in such other interval as may be required by the Program Guidelines). MCC will review the proposed Implementation Plan and as necessary may request MCA-El Salvador to submit clarifications or adjustments. MCA-El Salvador will submit an updated Implementation Plan or updated Implementation Plan Document during any quarter in which significant changes or modifications are made to a Project or to the Program, or when MCA-El Salvador determines that the expected results, targets and milestones for the specified year are not likely to be achieved; ***provided, however,*** that an updated Detailed Financial Plan will be submitted each quarter. In such instances, MCA-El Salvador will submit to MCC for approval a proposed revised Implementation Plan or updated Implementation Plan Document (as applicable) on the same date as the next Periodic Report is due. MCA-El Salvador will ensure that the implementation of the Program is conducted in accordance with the Implementation Plan.

(a) **Work Plan.** MCA-El Salvador will develop and implement a work plan, in form and substance satisfactory to MCC, for the overall administration of the Program (the ***“Work Plan”***).

(b) **Detailed Financial Plan.** The Multi-Year Financial Plan Summary for the Program, which is set forth in **Annex II** to the Compact, shows the estimated annual contribution of MCC Funding and the Government Contribution to administer, monitor and evaluate the Program and to implement each Project (the ***“Multi-Year Financial Plan”***). Except as MCC agrees otherwise in writing, MCA-El Salvador will develop and implement for each quarter for the upcoming year and on an annual basis for each year of the remaining years of the Compact, a detailed financial plan in accordance with the Reporting Guidelines, setting forth funding requirements for the Program (including administrative costs) and for each Project, broken down to the sub-activity level (or lower, where appropriate), and projected both on a commitment and cash requirement basis (each a ***“Detailed Financial Plan”***).

(c) Audit Plan. MCA-El Salvador will develop and implement a plan, in accordance with the Audit Guidelines, for the audit of the expenditures of the entities that are subject to audit pursuant to the Audit Guidelines (the “*Audit Plan*”). The Audit Plan will be in form and substance satisfactory to MCC and will be developed no later than sixty (60) days before the end of the first period to be audited.

(d) Procurement Plan. MCA-El Salvador will prepare periodic procurement plans for acquiring the goods, works, and consultant and non-consultant services needed to implement the Compact (each a “*Procurement Plan*”). Each Procurement Plan will be prepared and updated in accordance with the MCC Program Procurement Guidelines. In addition, no later than six months after the Compact enters into force as provided in Article 7 of the Compact, MCA-El Salvador will develop and implement a bid challenge system (“*BCS*”) that provides suppliers, contractors and consultants that are interested parties the ability to seek review of procurement actions and decisions. The organization, rules and procedures of such BCS will be subject to MCC approval. Upon MCC’s approval of the BCS, MCA-El Salvador will publish the BCS on the MCA-El Salvador website.

Section 2.2 Fiscal Accountability Plan. Except as MCC agrees otherwise in writing, MCA-El Salvador will develop and implement a manual (as approved by MCC) setting forth the principles, mechanisms and procedures (the “*Fiscal Accountability Plan*”) that MCA-El Salvador will use to ensure appropriate fiscal accountability for the use of MCC Funding or Government Contribution. The Fiscal Accountability Plan will also include, among other things, requirements with respect to (a) budgeting, (b) accounting, (c) cash management, (d) financial transactions (receipts and payments), (e) opening and managing Permitted Accounts, (f) personnel and payroll, (g) travel and vehicle use, (h) asset and inventory control, (i) audits and (j) reporting. The Fiscal Accountability Plan will be revised periodically, subject to review and approval by MCC.

Section 2.3 M&E Plan. Unless MCC agrees otherwise in writing, no later than ninety (90) days after the Compact enters into force as provided in Article 7 of the Compact, MCA-El Salvador will develop and implement an M&E Plan that will serve as the primary governing document for monitoring and evaluation activities for the Program over the Compact Term. The M&E Plan will be developed, implemented and updated in accordance with the MCC Policy for Monitoring and Evaluation of Compacts and Threshold Programs.

Section 2.4 Environmental and Social Performance Plans. In accordance with Section 1.2(b)(iv), MCA-El Salvador will ensure that activities undertaken, funded or otherwise supported in whole or in part (directly or indirectly) by MCC Funding or Government Contribution comply with the MCC Environmental Guidelines, including the IFC Performance Standards that are incorporated by reference therein. Specifically, MCA-El Salvador will: (i) develop and adopt an Environmental and Social Management System (“ESMS”) for the Compact; (ii) cooperate with or complete, as the case may be, any ongoing environmental and social impact assessments, and if necessary, undertake and complete any additional environmental and social assessments and analyses, such as environmental and social management plans, environmental and social audits, resettlement policy frameworks, and resettlement action plans required under the laws of El Salvador, the MCC Environmental Guidelines, this Agreement, the Compact, any other Supplemental Agreement or the Program Guidelines, or as otherwise required by MCC, each in form and substance satisfactory to MCC; (iii) ensure that Project or Activity-specific environmental and social management plans are developed and all relevant measures contained in such plans are integrated into project design, the applicable procurement documents and associated finalized contracts, in each case, in form and substance satisfactory to MCC; and (vi) implement to MCC’s satisfaction appropriate environmental and social mitigation measures identified in such assessments or plans or developed to address environmental and social issues identified during Compact implementation.

Section 2.5 Social and Gender Integration Plan. To ensure social inclusion and gender integration across the Projects and Activities, address human trafficking, and ensure compliance with the MCC Gender Policy and the MCC Gender Integration Guidelines, MCA-El Salvador will: (i) develop a comprehensive social and gender integration plan (“***Social and Gender Integration Plan***”) that, at a minimum, (i) identifies approaches for regular, meaningful and inclusive consultations with women and other vulnerable and/or underrepresented groups; sets forth strategies for consolidating the findings and recommendations of Project-specific social and gender analyses into final Project designs; and specifies actions to be taken during the Compact Term to meet the social inclusion and gender equality objectives for the Projects; and (ii) ensures, through monitoring and coordination during Compact implementation, that final Activity designs, construction tender documents and implementation plans are consistent with and incorporate the outcomes of the social and gender analyses. MCA-El Salvador will, on an annual basis, review and update the Social and Gender Integration Plan as needed to reflect lessons learned and Project-specific analysis.

Section 2.6 MCC Program Procurement Guidelines and MCC Approval of Grants. In accordance with Section 3.6 of the Compact:

(a) MCA-El Salvador will comply with the MCC Program Procurement Guidelines in the procurement (including solicitation) of all goods, works and services and the award and administration of contracts in furtherance of the Compact, including the process to ensure that open, fair, and competitive procedures will be used in a transparent manner in the award and administration of grants or cooperative agreements and in the procurement of goods, works and

services. In addition, the Government will ensure that any bid challenges are conducted in accordance with the MCC Program Procurement Guidelines and the BCS; and

(b) Unless MCC otherwise consents in writing, MCA-El Salvador will ensure that grants awarded to any non-Government entity in furtherance of the Program are awarded and administered pursuant to an open, fair and competitive procedure administered in a transparent manner.

Section 2.7 Notice to Providers; Incorporation.

(a) MCA-El Salvador will notify all Providers (and all other entities or individuals receiving MCC Funding in connection with the Program) of the requirements of Section 2.7 of the Compact and will include, or ensure the inclusion of, the requirements of Section 2.7 of the Compact in all agreements with a Provider if MCC is not a party to such agreements.

(b) MCA-El Salvador will include, or ensure the inclusion of, the requirements of:

(i) Sections 2.1(c) and 2.8(c) of this Agreement and Section 3.7 of the Compact and paragraphs (b)(i) and (ii), (c), and (d) of Section 3.8 of the Compact in all agreements financed with MCC Funding or Government Contribution between the Government or any entity of the Government, on the one hand, and a Covered Provider that is not a non-profit organization domiciled in the United States, on the other hand;

(ii) Section 3.7 of the Compact and paragraphs (b)(i) and (ii) and (d) of Section 3.8 of the Compact in all agreements financed with MCC Funding or Government Contribution between the Government or any entity of the Government, on the one hand, and a Provider that does not meet the definition of a Covered Provider, on the other hand;

(iii) Section 3.7 of the Compact and paragraphs (b)(i) and (ii), (c), and (d) of Section 3.8 of the Compact in all agreements financed with MCC Funding or Government Contribution between the Government or any entity of the Government, on the one hand, and a Covered Provider that is a non-profit organization domiciled in the United States, on the other hand; and

(iv) Section 3.7 of the Compact and paragraphs (b)(iii), (c) and (d) of Section 3.8 of the Compact in all agreements financed with MCC Funding or Government Contribution between the Government or any entity of the Government, on the one hand, and a non-U.S. Covered Provider, on the other hand.

Section 2.8 Reports; Notices.

(a) Unless MCC agrees otherwise in writing, MCA-El Salvador will periodically provide to MCC, in form and substance satisfactory to MCC, the reports and information required by the Reporting Guidelines (each, a “*Periodic Report*”). MCA-El Salvador will

provide the Periodic Reports to MCC on the schedule specified in the Reporting Guidelines, and the Periodic Reports will be consistent with the Reporting Guidelines in all respects.

(b) On October 30 of each year of the Compact Term (or within thirty (30) days of any written request by MCC), MCA-El Salvador will provide to MCC an annual supplemental report containing the following information:

(i) the progress made by the Government toward achieving the Compact Goal, Program Objective and Project Objectives;

(ii) additional information on accomplishments not presented in the Periodic Reports;

(iii) developments in Compact implementation related to the consultative process, donor coordination, and lessons learned; and

(iv) any report or document required to be delivered to MCC in connection with the Program under the MCC Environmental Guidelines (including the IFC Performance Standards that are incorporated by reference therein), any Audit Plan, or any Implementation Plan Document.

(c) MCA-El Salvador will furnish, or use its best efforts to furnish, to MCC an audit report in a form satisfactory to MCC for each audit required under the Compact, other than audits arranged for by MCC, no later than ninety (90) days after the end of the period under audit, or such other time as may be agreed by MCC from time to time. Each audit performed under the Office of Inspector General for the Millennium Challenge Corporation's *Guidelines for Financial Audits Contracted by the Millennium Challenge Corporation's Accountable Entities* will include the Government's cost sharing schedule as part of the audit.

(d) If at any time during the Compact Term, the Government materially reallocates or reduces the allocation in its national budget of the normal and expected resources that the Government would have otherwise received or budgeted, from external or domestic sources, or fails to timely distribute an allocation budgeted for the activities contemplated under the Compact or the Program, the Government, acting through, MCA-El Salvador must notify MCC in writing within thirty (30) days of such reallocation, reduction, or failure to distribute, such notification to contain information regarding the amount of the reallocation, reduction, or failure to distribute, the affected activities, and an explanation for the reallocation or reduction.

(e) In addition to the Periodic Reports, MCA-El Salvador will provide to MCC within thirty (30) days of a written request by MCC, or as otherwise agreed by MCC and MCA-El Salvador in writing, such other reports, documents or information as MCC may request from time to time related to the Program, including any component of the Implementation Plan, the Fiscal Accountability Plan, the Program Guidelines or any Disbursement.

(f) MCA-El Salvador will submit the Periodic Reports and any other reports required hereunder electronically if requested by MCC or otherwise required by the Reporting Guidelines.

(g) MCA-El Salvador will furnish MCC with a report, in form and substance satisfactory to MCC, within 90 days after the end of each calendar year regarding the Government's contribution to the objectives of the Program required by Section 2.6(a) of the Compact. The report will cover the calendar year just ended and the projected contributions for the current calendar year.

Section 2.9 Transactions Subject to MCC Approval. Each of the following transactions, activities, agreements, and documents requires MCC's prior written approval:

- (a) Disbursements;
- (b) the Implementation Plan (including each element or component thereof), the Fiscal Accountability Plan and the M&E Plan, and any modification of any of the foregoing;
- (c) agreements between the Government and MCA-El Salvador, and agreements in which any of the following are appointed, hired or otherwise engaged (each, a "**Material Agreement**"):
 - (i) Auditor or Reviewer;
 - (ii) Fiscal Agent;
 - (iii) Procurement Agent;
 - (iv) Bank;
 - (v) Implementing Entity;
 - (vi) Outside Project Manager; and
 - (vii) a member of the Board (including any Observer) or any Officer of MCA-El Salvador (including agreements regarding compensation for any such person);
- (d) any modification, termination or suspension of a Material Agreement, or any action that would have equivalent effect;
- (e) any agreement or transaction of MCA-El Salvador that is not arm's-length;
- (f) any pledge of any MCC Funding or any Program Assets, or any incurrence of material indebtedness, or any guarantee, directly or indirectly of any indebtedness;
- (g) any decree, legislation, regulation, charter, contractual arrangement or other document establishing or governing (other than public laws of general application to all public

institutions), or relating to the formation, organization or governance of, MCA-El Salvador (including the Bylaws and any staffing plan) (each, a “**Governing Document**”);

(h) any disposition, in whole or in part, liquidation, dissolution, winding up, reorganization or other change of MCA-El Salvador;

(i) any change in character or location of any Permitted Account;

(j) (A) any change of any member of the Board (including any Observer), of the member serving as the chairperson or in the composition or size of the Board, and the filling of any vacant seat of any member of the Board (including any Observer), (B) any change of any Officer of MCA-El Salvador or in the composition or size of its management unit, and the filling of any vacant position of any Officer of MCA-El Salvador, and (C) any material change in the composition or size of any Stakeholder Committee;

(k) any decision by MCA-El Salvador to engage, accept or manage any funds in addition to MCC Funding (including from the Government or any donor agencies or organizations) during the Compact Term, or to engage in any activities or undertake any duties or responsibilities other than the Designated Rights and Responsibilities;

(l) any agreement, transaction, decision or other action or document for which MCC approval is required under any of the Program Guidelines; and

(m) any amendment, supplement, replacement, termination, revocation or other change to any of the foregoing documents or arrangements.

Section 2.10 Role of Certain Entities in Implementation.

(a) Outside Project Manager. MCA-El Salvador may engage qualified persons or entities to serve as outside project managers (each, an “**Outside Project Manager**”) in the event that it is advisable to do so for the proper and efficient day-to-day management of a Project or Activity; **provided, however,** that, if so required by the MCC Program Procurement Guidelines, the appointment or engagement of any Outside Project Manager will be made using a competitive selection process and, if required by the MCC Program Procurement Guidelines, will be subject to approval by the Board and by MCC prior to such appointment or engagement. Upon such approval, MCA-El Salvador may delegate, assign, or contract to the Outside Project Managers such duties and responsibilities as it deems appropriate with respect to the management of the Implementing Entities and the implementation of the specific Projects or Activities; and **provided, further,** that MCA-El Salvador will remain accountable for those duties and responsibilities and all reports delivered by the Outside Project Manager notwithstanding any such delegation, assignment or contract and the Outside Project Manager will be subject to the oversight of the Fiscal Agent and Procurement Agent. The Board may determine that it is advisable to engage one or more Outside Project Managers and instruct MCA-El Salvador and, where appropriate, the Procurement Agent to commence and conduct the competitive selection process for such Outside Project Manager.

(b) Fiscal Agent and Fiscal Oversight Agent.

(i) MCA-El Salvador will engage a Fiscal Agent, who will be responsible for, among other things, (i) ensuring and certifying that Disbursements are properly authorized and documented in accordance with established control procedures set forth in the Fiscal Agent Agreement and the Bank Agreement, (ii) instructing the Bank to make Disbursements from a Permitted Account or requesting Disbursement be made directly to a provider as payment for goods, works or services in accordance with the Common Payment System or any alternate payment system approved by MCC, as the case may be, and in each case following applicable certification by the Fiscal Agent, (iii) providing applicable certifications for Disbursement Requests, (iv) maintaining proper accounting of all MCC Funding or Government Contribution financial transactions, and (v) producing reports on Disbursements in accordance with established procedures set forth in the Fiscal Agent Agreement or the Bank Agreement. MCA-El Salvador may appoint its financial management unit as its Fiscal Agent, pursuant to Section C.3 to Annex I of the Compact. MCA-El Salvador will enter into an agreement with or adopt terms of reference or similar description of services for the Fiscal Agent, in form and substance satisfactory to MCC, which sets forth the roles and responsibilities of the Fiscal Agent and other appropriate terms and conditions (the “*Fiscal Agent Agreement*”).

(ii) MCA-El Salvador will engage a Fiscal Oversight Agent to carry out and certify the Fiscal Agent’s compliance with the Fiscal Accountability Plan, and any other appropriate terms and conditions relevant to oversight of the Fiscal Agent, pursuant to Section C.3(b) to Annex I of the Compact. MCA-El Salvador will enter into an agreement with the Fiscal Oversight Agent, in form and substance satisfactory to MCC, which sets forth the roles and responsibilities of the Fiscal Oversight Agent (“*Fiscal Oversight Agreement*”).

(c) Auditors and Reviewers. MCA-El Salvador will engage one or more auditors as contemplated in the Audit Guidelines (each, an “*Auditor*”). As requested by MCC in writing from time to time, MCA-El Salvador will also engage an independent (i) reviewer to conduct reviews of performance and compliance under the Compact, which reviewer will have the capacity to (1) conduct general reviews of performance or compliance, (2) conduct audits of environmental and social performance, and (3) conduct data quality assessments in accordance with the M&E Plan, as described more fully in Annex III to the Compact, and/or (ii) evaluator to assess performance as required under the M&E Plan (each, a “*Reviewer*”). MCA-El Salvador will select the Auditor(s) and/or Reviewer(s) in accordance with the Audit Guidelines and the M&E Plan, as applicable. MCA-El Salvador will enter into an agreement with each Auditor or Reviewer, in form and substance acceptable to MCC, that sets forth the roles and responsibilities of the Auditor or Reviewer with respect to the audit, review or evaluation, including access rights, required form and content of the applicable audit, review or evaluation and other appropriate terms and conditions (the “*Auditor / Reviewer Agreement*”).

(d) Procurement Agent. MCA-El Salvador will engage a Procurement Agent to carry out and/or certify specified procurement activities in furtherance of the Compact and this Agreement. MCA-El Salvador may designate its internal procurement unit as Procurement

Agent, pursuant to Section C.4 to Annex I of the Compact. MCA-El Salvador will enter into an agreement with or adopt terms of reference or similar description of services for the Procurement Agent, in form and substance satisfactory to MCC, that sets forth the roles and responsibilities of the Procurement Agent with respect to the conduct, monitoring and review of procurements and other appropriate terms and conditions (the “*Procurement Agent Agreement*”).

Section 2.11 Publicity and Transparency.

(a) Subject to Section 2.12, MCA-El Salvador will give appropriate publicity to the Compact as a program to which the United States, through MCC, has contributed, including by identifying Program Activity sites, and marking Program Assets, all in accordance with MCC’s *Standards for Global Marking*. Upon the termination or expiration of the Compact, the Government, upon MCC’s request, will cause the removal of any such references and markings on the MCA-El Salvador Website or in any Government or MCA-El Salvador publicity materials.

(b) MCA-El Salvador will make information concerning implementation of the Compact publicly available, including by posting the following documents in English (unless MCC agrees otherwise in writing), on the website operated by MCA-El Salvador (the “*MCA-El Salvador Website*”), all to the extent contemplated by and in accordance with the Governance Guidelines: (i) Compact, (ii) this Agreement, (iii) minutes of the meetings of the Board, and minutes of the meetings of the Stakeholders Committees as they relate to MCA-El Salvador; (iv) the M&E Plan, along with periodic reports and final evaluations on Program performance; (v) all environmental and social impact assessments and resettlement action plans for the Projects and supporting documents; (vi) all social and gender assessments and the Social and Gender Integration Plan; (vii) all audit reports by an Auditor and any periodic reports or evaluations by a Reviewer; (viii) all Disbursement Requests; (ix) all reports required to be submitted to MCC under the terms of this Agreement (including the reports required under Section 2.8(a)); (x) all procurement policies and procedures (including standard documents, procurement plans, contracts awarded and the BCS) and any other procurement documents required to be made publicly available under the MCC Program Procurement Guidelines; (xi) a copy of any legislation or other documents related to the formation, organization or governance of MCA-El Salvador (except to the extent classified), including the Governing Documents and any amendments thereto; and (xii) such other materials as MCC may request; ***provided, however***, that any press release or announcement regarding MCC or the fact that MCC is funding the Program or any other publicity materials referencing MCC will be subject to MCC’s prior approval and must be consistent with any instructions provided by MCC in relevant Implementation Letters.

(c) Notwithstanding Section 2.11(b), information relating to procurements prior to the award of a contract and confidential information relating to MCA-El Salvador’s agreements with employees, contractors and consultants will be excluded from the information and documents made publicly available; ***provided, however***, that MCC and MCA-El Salvador will mutually determine whether any information to be excluded is confidential.

Section 2.12 Branding and Enforcement.

(a) Subject to Section 5.7(d), MCC hereby grants MCA-El Salvador a revocable, royalty-free, fully paid and non-exclusive right and license to use MCC's logo and the names "Millennium Challenge Corporation," "Millennium Challenge Account" and "MCC", in each case, solely in accordance with the MCC *Standards for Global Marking*. Any such use of the logo and names will be solely for the benefit of MCC, and not inure to the benefit of MCA-El Salvador. The use of MCC's logo and names will not create any agency or legal representation, and MCA-El Salvador has no authority to bind MCC in any way.

(b) MCA-El Salvador will create its own logo, and use such logo as well as the names "Millennium Challenge Account-El Salvador" and "MCA-El Salvador", in each case, solely in accordance with the MCC *Standards for Global Marking*. Subject to Section 5.7(d), MCA-El Salvador hereby grants MCC an irrevocable, royalty-free, fully paid and non-exclusive right and license to use the names "Millennium Challenge Account-El Salvador" and "MCA-El Salvador," and MCA-El Salvador's logo.

(c) MCA-El Salvador will take all reasonable steps to ensure that the names "Millennium Challenge Account-El Salvador" and "MCA-El Salvador," as well as its own logo, will enjoy maximum protection under the laws now or hereafter in effect in El Salvador throughout the term of this Agreement. This includes the registration of the names and the logo as a trademark, if appropriate, the monitoring of unauthorized use by third parties, and, in case of detection of unauthorized use, the enforcement of such rights. MCA-El Salvador will inform MCC as soon as practicable if it becomes aware of any infringement, threat of infringement, or any other use by a third party that has not been authorized by MCC of any of (i) the names "Millennium Challenge Account-El Salvador," "MCA-El Salvador" and/or MCA-El Salvador's logo; or (ii) the names "Millennium Challenge Corporation", "MCC" and/or MCC's logo. MCA-El Salvador will provide MCC assistance to enforce MCC's rights to the names "Millennium Challenge Corporation" and "MCC", as well as to MCC's logo.

Section 2.13 Government Contribution.

(a) In accordance with Section 2.6(a) of the Compact, the Government will make an appropriate contribution, relative to its national budget and taking into account prevailing economic conditions, toward meeting the objectives of the Compact ("**Government Contribution**"). Such contribution will be in addition to the Government's spending allocated toward such objectives in its budget for its fiscal year 2014. The Government's anticipated contributions from its national budget for fiscal years 2015 through 2019 are set forth in Annex 3 to this Agreement. Such contributions remain subject to any legal requirements in El Salvador for the budgeting and appropriation of such contributions, including approval of the Government's annual budget by El Salvador's legislature. The Government's contribution may include in-kind and financial contributions (including obligations of the Government on any debt incurred toward meeting the Objectives).

(b) Unless otherwise agreed by the Parties in writing, contributions denominated in a currency other than that of El Salvador will be recorded and converted to U.S. dollars at the exchange rate on the date the contribution payment is made or using an average rate over the period of contribution, in each case, using the exchange rates published by the central bank of El Salvador or such other source acceptable to MCC.

ARTICLE 3.

DISBURSEMENT OF MCC FUNDING

Section 3.1 Disbursement Process.

(a) Disbursement Requests. MCA-El Salvador may request Disbursements to be made under the Compact by submitting a request in accordance with the Reporting Guidelines (each a “**Disbursement Request**”), duly completed, to MCC not later than twenty (20) days (or such other period of time as may be agreed by MCC) prior to the commencement of each Disbursement Period. Requests for Disbursement of Program Funding and Compact Implementation Funding for any Disbursement Period will be made by separate Disbursement Requests using the applicable form. Unless MCC agrees otherwise in writing, MCA-El Salvador may submit only one Disbursement Request for Program Funding and one Disbursement Request for Compact Implementation Funding for each quarter (such quarter, or any other period of time as agreed by MCC, the “**Disbursement Period**”), or as otherwise provided for working capital in MCC’s *Common Payment System Policy and Procedures* or its successor guidance document. Each Disbursement Request submitted must be accompanied by the Periodic Reports covering the corresponding Disbursement Period.

(b) Approval of Disbursement Requests; Release of Proceeds.

(i) Upon receipt of a Disbursement Request, MCC will determine the appropriate amount of the Disbursement to be authorized based on, among other things, (A) the progress achieved under the Implementation Plan, (B) the amount of funds required to complete the activities described in the accompanying Periodic Reports during the corresponding Disbursement Period and (C) the satisfaction, waiver or deferral of applicable conditions to such Disbursement. MCC may, in its sole discretion, disapprove any Disbursement completely or reduce the amount of any Disbursement below that proposed in a Disbursement Request based on its determination of any of the factors set forth in this Section 3.1(b)(i).

(ii) Upon MCC’s approval of a Disbursement Request, the proceeds of MCC Funding approved therein may be transferred, at MCC’s sole election, (A) to a Permitted Account, or (B) directly to a provider as payment for goods, works or services received by MCA-El Salvador in accordance with the Common Payment System or any alternate payment system approved by MCC; **provided however** that expenditures of such proceeds (including amounts transferred directly to a provider) are authorized by MCA-El Salvador, and the related payment complies, as certified by the Fiscal Agent, with the most recently approved Detailed

Financial Plan and the standards and procedures set forth in the Fiscal Agent Agreement and the Fiscal Accountability Plan.

(c) Permitted Accounts.

(i) Any MCC Funding to be disbursed to a bank account must be deposited in an account established by MCA-El Salvador in the local currency of El Salvador (the “**Local Account**”), such Local Account, and each other such account, a Permitted Account, to be established at a financial institution acceptable to MCC. MCC and MCA-El Salvador shall mutually agree in writing to the establishment of a Permitted Account for the deposit of the Government Contribution (“**Government Account**”). Additional Permitted Accounts may be established from time to time subject to the mutual agreement of both MCA and MCC. MCA-El Salvador will notify MCC promptly if any account information for a Permitted Account changes during the Compact Term and provide MCC with the updated information.

(ii) Unless otherwise authorized by MCC in writing, no funds will be commingled in the Permitted Account set up to receive MCC Funding other than MCC Funding and accrued interest and earnings thereon. The Government Contribution will be kept in a Government Account and no other funds will be commingled in such Permitted Account other than the Government Contribution and any interest accrued thereon. MCC will have the right, among other things, to view any Permitted Account statements and activity directly on-line, and where such viewing is not feasible, MCA-El Salvador will provide copies of such statements to MCC upon its request. Before any MCC Funding or Government Contribution is deposited into a Permitted Account, MCA-El Salvador will enter into an agreement, in form and substance satisfactory to MCC, with the financial institution approved by MCC to hold such Permitted Account (the “**Bank**”) that sets forth the signatory authority, access rights, anti-money laundering and anti-terrorist financing provisions, and other terms related to such Permitted Account (the “**Bank Agreement**”). The Fiscal Agent, and in certain specified cases in the Bank Agreement, designated representatives of MCC, will be the sole signatories on each Permitted Account.

(iii) MCC Funding or Government Contribution held in separate Permitted Accounts may accrue interest or other earnings in accordance with the applicable Bank Agreement. On a quarterly basis and upon the termination or expiration of the Compact or the relevant Bank Agreement, MCA-El Salvador will ensure the transfer of all accrued interest on MCC Funding to MCC. Accrued interest on the Government Contribution held in a Permitted Account shall be transferred to the Government according to instructions agreed upon between the Bank and the Government.

(iv) Unless MCC agrees otherwise in writing, if MCC Funding is held in any Permitted Account other than the Local Account, MCA-El Salvador will ensure that such MCC Funding will be denominated in the currency of the United States of America prior to its expenditure or transfer to the Local Account. To the extent that any amount of MCC Funding held in U.S. Dollars must be converted into the currency of El Salvador for any purpose, MCA-

El Salvador will ensure that such amount is converted consistent with the requirements of the Bank Agreement or any other applicable Supplemental Agreement.

Section 3.2 Conditions Precedent to Disbursement of Compact Implementation Funding. Prior to the initial Disbursement of Compact Implementation Funding or any subsequent Disbursement of Compact Implementation Funding, the applicable conditions set forth in Annex IV to the Compact must have been met to MCC's satisfaction.

Section 3.3 Conditions Precedent to the Initial Disbursement of Program Funding. Unless waived or deferred by MCC, the conditions of this Section 3.3 and the conditions set forth in Section 3.4 must have been met to MCC's satisfaction prior to the initial Disbursement of Program Funding:

(a) Entry into Force. The Compact has entered into force as provided in Article 7 of the Compact.

(b) Officers. Each of the Officers has been selected and engaged by MCA-El Salvador and approved by MCC.

(c) Fiscal Accountability Plan. MCA-El Salvador has developed the Fiscal Accountability Plan (or an interim version), and the plan has been approved by MCC.

(d) M&E Plan. MCA-El Salvador has developed the M&E Plan, and the plan has been approved by the Board and MCC.

(e) Implementation Plan. MCA-El Salvador has developed a complete Implementation Plan.

Section 3.4 Conditions Precedent to Each Disbursement of Program Funding. Unless waived or deferred by MCC, the following conditions must have been met to MCC's satisfaction prior to each Disbursement of Program Funding including the initial Disbursement of Program Funding:

(a) Deliveries. MCA-El Salvador has delivered to MCC the following documents, reports and information in form and substance satisfactory to MCC:

(i) a completed Disbursement Request, together with the Periodic Reports covering the related Disbursement Period;

(ii) copies of any reports from any technical (including environmental) auditors engaged by MCA-El Salvador for any Activity delivered since the previous Disbursement Request;

(iii) a certificate of MCA-El Salvador, dated as of the date of such Disbursement Request, substantially in the form provided by MCC (the "*MCA Disbursement Certificate*");

(iv) a certificate of the Procurement Agent, substantially in the form provided by MCC (the “*Procurement Agent Disbursement Certificate*”); and

(v) a certificate of the Fiscal Agent, substantially in the form provided by MCC (the “*Fiscal Agent Disbursement Certificate*”).

(b) Other Conditions Precedent. MCC has determined in its sole discretion that:

(i) all applicable conditions precedent in Annex 2 have been duly satisfied, deferred or waived as provided in this Agreement;

(ii) no material default or breach of any covenant, obligation or responsibility by the Government, MCA-El Salvador or any Government entity has occurred and is continuing under the Compact, this Agreement or any other Supplemental Agreement;

(iii) the activities to be funded with such Disbursement will not violate any applicable law or regulation;

(iv) the Implementation Plan Documents and Fiscal Accountability Plan are current and updated and are in form and substance satisfactory to MCC, and there has been progress satisfactory to MCC on the components of the Implementation Plan for any relevant Projects or Activities related to such Disbursement;

(v) there has been progress satisfactory to MCC on the M&E Plan and Social and Gender Integration Plan for the Program, relevant Project or Activity and substantial compliance with the requirements of the M&E Plan and Social and Gender Integration Plan (including the targets set forth therein and any applicable reporting requirements set forth therein for the relevant Disbursement Period);

(vi) all Government entities involved in the implementation of the Program, including the Implementing Entities, are coordinating successfully with MCA-El Salvador and dedicating the necessary staff and other resources to ensure successful implementation of the Program;

(vii) there has been no material negative finding in any financial audit report delivered in accordance with the Compact and Audit Plan, for the prior two quarters (or such other period as the Audit Plan may require);

(viii) any Taxes paid with MCC Funding through the date ninety (90) days prior to the start of the applicable Disbursement Period have been reimbursed by the Government in full in accordance with Section 2.8(c) of the Compact;

(ix) the Government has satisfied all of its payment obligations, including any insurance, indemnification, tax payments or other obligations, and contributed all resources required from it, under the Compact, this Agreement and any other Supplemental Agreement;

(x) MCC does not have grounds for concluding that any matter certified to it in the related MCA Disbursement Certificate, Procurement Agent Disbursement Certificate or Fiscal Agent Disbursement Certificate is not as certified;

(xi) no act, omission, condition, or event has occurred that would be the basis for MCC to suspend or terminate, in whole or in part, the Compact or MCC Funding in accordance with Section 5.1 of the Compact;

(xii) each of the Officers remains engaged, or if a position is vacant, MCA-El Salvador is actively engaged, to MCC's satisfaction, in recruiting a replacement;

(xiii) MCA-El Salvador has complied in all material respects with its obligations set forth in Section 2.1(d) with respect to the establishment of a BCS and its obligations set forth in Section 2.3 with respect to the establishment of an M&E Plan; and

(xiv) The Government has complied in all material respects with its obligations set forth in Section 2.13 with respect to the making of its contributions in accordance with the projected timeline set forth in Annex 3.

Section 3.5 Authorized Expenditures. Except as MCC agrees otherwise in writing, a Disbursement, or financial commitment involving MCC Funding may be made, and a Disbursement Request may be submitted, only if the related expense is provided for in the Detailed Financial Plan and sufficient uncommitted funds exist in the Detailed Financial Plan for the relevant period.

ARTICLE 4.

ENTRY INTO FORCE OF THIS AGREEMENT; CONSEQUENCES OF COMPACT TERMINATION, SUSPENSION AND EXPIRATION

Section 4.1 Entry into Force of this Agreement. This Agreement will enter into force upon the later of (a) the signing of this Agreement by each of the Parties to this Agreement and (b) the date that the Compact enters into force as provided in Article 7 of the Compact; ***provided, however,*** that the Parties agree that upon signature of this Agreement, and until this Agreement enters into force, the Parties will provisionally apply the terms of this Agreement.

Section 4.2 Consequences of Compact Termination, Suspension or Expiration.

(a) Upon the suspension, in whole or in part, of the Compact or any MCC Funding, all applicable Disbursements of MCC Funding will be suspended, and MCC may request the Government to return any MCC Funding (or portion thereof) on deposit in any Permitted Account; ***provided, however,*** MCC Funding may be used, in compliance with the Compact and this Agreement and with written consent of MCC, to pay for (i) reasonable expenditures for goods, works or services that were properly incurred under or in furtherance of the Program

before the suspension of the Compact or any MCC Funding; and (ii) reasonable costs incurred in connection with the suspension of the Compact or any MCC Funding.

(b) Upon the termination, in whole or in part, of the Compact or any MCC Funding, all applicable Disbursements of MCC Funding will cease; ***provided, however,*** MCC Funding may be used, in compliance with the Compact and this Agreement and with written consent of MCC, to pay for (i) reasonable expenditures for goods, works or services that were properly incurred under or in furtherance of the Program before termination of the Compact or any MCC Funding, and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program (or any part thereof) within 120 days after the termination of the Compact or any MCC Funding.

(c) Upon expiration of the Compact, all Disbursements of MCC Funding will cease; ***provided, however,*** MCC Funding may be used, in compliance with the Compact and this Agreement, to pay for (i) reasonable expenditures for goods, works or services that were properly incurred under or in furtherance of the Program before expiration of the Compact, and (ii) reasonable expenditures (including administrative expenses) properly incurred in connection with the winding up of the Program within 120 days after the expiration.

(d) Subject to Sections 4.2(b) and (c), upon the expiration or termination of the Compact or MCC Funding, the Government will return to MCC any amounts of MCC Funding on deposit in any Permitted Account but not expended before the expiration or termination, plus accrued interest thereon within thirty (30) days after the Government receives MCC's request for such return; ***provided, however,*** that if the Compact is terminated in part, only the amount of MCC Funding allocated to the terminated portion will be subject to return.

(e) Upon the full or partial termination of the Compact or any MCC Funding, MCC may, at its expense, direct that title to any Program Assets be transferred to MCC if such Program Assets are in a deliverable state, and the Government will promptly effect such transfer upon such direction; ***provided however,*** that, for any Program Asset not in a deliverable state and any Program Asset partially purchased or funded with MCC Funding, the Government, upon MCC's request, will reimburse MCC in United States Dollars the cash equivalent of the fair market value of such Program Asset or portion thereof, as such is determined by MCC.

(f) Prior to expiration, or upon termination, of the Compact, the Parties will consult in good faith with a view to reaching an agreement in writing on (i) the post-Compact Term treatment of MCA-El Salvador, (ii) the process for ensuring the refunds of MCC Funding Disbursements that have not yet been released from a Permitted Account or committed in accordance with Sections 4.2(b) and (c), and (iii) any other matter related to the winding up of the Program and the Compact.

(g) Without limiting the terms of Section 4.2(f), MCC and the Government recognize that the effects of the Compact will be long-ranging and its impact on reducing poverty may not be measurable for several years after the Compact's expiration. Accordingly, MCC and the Government agree to cooperatively monitor the results and evaluate the impacts of the Compact

on reducing poverty through economic growth in El Salvador after the Compact's termination or expiration. As part of this cooperation, prior to the Compact's termination or expiration, the Parties will develop a post-Compact monitoring and evaluation plan that describes the future monitoring and evaluation activities, the individuals and organizations that will undertake these activities, and a budget framework for future monitoring and evaluation, provided, however, that nothing in this Section 4.2(g) will be construed as committing MCC to provide any assistance to the Government after the Compact's expiration. The Government agrees to provide all resources necessary (including both financial and personnel) to fulfill the tasks undertaken by the Government under the post-Compact monitoring and evaluation plan.

ARTICLE 5.

GENERAL PROVISIONS

Section 5.1 Representatives. The provisions of Section 4.2 of the Compact are incorporated herein by reference as if fully set forth herein.

Section 5.2 Communications. The provisions of Section 4.1 of the Compact are incorporated herein by reference as if fully set forth herein, provided that documents or communications submitted to MCA-El Salvador will be submitted at the following address:

MCA-El Salvador
Attention: Chief Executive Officer
Edificio Zafiro, Boulevard Orden de Malta
Avenida Boquerón, No. 4 – A
Santa Elena, Antiguo Cuscatlán
El Salvador
Tel: (503) 25241000
Fax: (503) 25231004

Section 5.3 Assignments by the Government. The Government may not assign, delegate or contract its rights or obligations under this Agreement without MCC's prior written consent. The Government agrees, upon request by MCC, to execute an assignment to MCC of any contractual right or cause of action which may accrue to the Government or MCA-El Salvador in connection with or arising out of the contractual performance or breach of performance by a party to a contract financed in whole or in part by MCC Funding.

Section 5.4 Amendment; Waivers. The Parties may amend this Agreement only by a written agreement signed by the Principal Representative (or such other government official who holds a position of higher authority, provided prior notice is given) of each Party; ***provided, however,*** that the Parties may agree in a writing, signed by the Principal Representative or any Additional Representative of each Party, to modify any annex hereto without amending this Agreement. The Parties understand that any modification of this Agreement may be entered into by the Government without the need for further action by the Government (including any parliamentary

action), or satisfaction of any additional domestic requirements of El Salvador. Any waiver of a right or obligation arising under this Agreement will be effective only if provided in writing.

Section 5.5 Attachments. Each exhibit, schedule and annex attached to this Agreement constitutes an integral part of this Agreement.

Section 5.6 Inconsistencies. In the event of any conflict or inconsistency between this Agreement and the Compact, the terms of the Compact will prevail. In the event of any conflict or inconsistency between this Agreement and any other Supplemental Agreement or any Implementation Plan Document the terms of this Agreement will prevail.

Section 5.7 Termination of this Agreement.

(a) MCC may terminate this Agreement in whole or in part, without cause by giving the Government thirty (30) days' written notice. This Agreement will terminate simultaneously with the termination of the Compact by the Government in accordance with Section 5.1(a) of the Compact.

(b) MCC may immediately terminate this Agreement, in whole or in part, by written notice to MCA-El Salvador and the Government, if MCC determines that any event that would be a basis for termination or suspension of the Compact or MCC Funding under Section 5.1(b) of the Compact has occurred.

(c) Unless terminated earlier in accordance with the terms hereof or the Compact, this Agreement will expire upon the expiration or termination of the Compact; ***provided, however***, that, if MCC determines, consistent with Section 4.2 (b) or (c), that obligations incurred (and previously approved by MCC in a Disbursement Request) prior to the expiration or termination of the Compact remain to be paid, then the provisions of this Agreement will apply until such date as such obligations are satisfied.

(d) No later than 120 days after the expiration or termination of this Agreement, unless MCC agrees otherwise in writing, (i) the licenses granted to MCA-El Salvador in Section 2.12(a) will terminate with immediate effect; (ii) the Government will ensure that MCA-El Salvador ceases to be named "Millennium Challenge Account-El Salvador", "MCA-El Salvador" and/or "*FOMILENIO II*"; and (iii) the Government will take reasonable steps to ensure that such names and any associated logo, as well as the names "Millennium Challenge Corporation" and "MCC", as well as any logo associated therewith, are no longer used by MCA-El Salvador or any other entity for any purpose not authorized by MCC. Furthermore, upon expiration or termination of this Agreement, MCA-El Salvador will assign and hereby assigns and transfers to MCC all right, title, and interest to the names "Millennium Challenge Account-El Salvador", "MCA-El Salvador", "Millennium Challenge Corporation", "MCC", as well as MCA-El Salvador's logo and MCC's logo that it might have acquired during the term of this Agreement.

Section 5.8 Survival. Notwithstanding any expiration, suspension or termination of this Agreement, the following provisions of this Agreement will survive: Sections 1.2(b)(iii), 2.10(a), 2.11, 4.2, 5.1, 5.2, 5.3, 5.7(d), 5.8, 5.9 and 5.10.

Section 5.9 Information Provided to MCC. MCC may use or disclose any information in any Disbursement Request, report or document developed or delivered in connection with the Program: (a) to its employees, contractors, agents and representatives, (b) to any United States inspector general or the United States Government Accountability Office or otherwise for the purpose of satisfying MCC's own reporting requirements, (c) to post on the MCC Website for the purpose of making certain information publicly available and transparent, (d) in connection with publicizing MCC and its programs or (e) in any other manner.

Section 5.10 Governing Law. The Parties acknowledge and agree that this Agreement is an international agreement entered into for the purpose of implementing the Compact and as such will be interpreted in a manner consistent with the Compact and will be governed by the principles of international law.

Section 5.11 Counterparts; Electronic Delivery. Signatures to this Agreement and to any amendment to this Agreement will be original signatures appearing on the same page or in an exchange of letters or diplomatic notes. With respect to all documents arising out of this Agreement and amendments thereto, signatures may be delivered by facsimile or electronic mail and in counterparts and will be binding on the Party delivering such signature to the same extent as an original signature would be.

Signature Page Follows on the Next Page

IN WITNESS WHEREOF, each Party, by its duly authorized representative, has caused this Program Implementation Agreement to be executed by a duly authorized representative as of the date first written above.

FOR THE UNITED STATES OF AMERICA,
acting through THE MILLENNIUM
CHALLENGE CORPORATION

FOR THE REPUBLIC OF EL SALVADOR,
acting through THE TECHNICAL AND
PLANNING SECRETARIAT OF THE
PRESIDENT

/s/

/s/

Name: Kamran M. Khan
Title: Vice President, Compact Operations

Name: Francisco Roberto Lorenzana
Title: Technical and Planning Secretary

**SIGNATURE PAGE TO PROGRAM IMPLEMENTATION AGREEMENT
BETWEEN THE UNITED STATES OF AMERICA
ACTING THROUGH THE MILLENNIUM CHALLENGE CORPORATION
AND THE REPUBLIC OF EL SALVADOR
ACTING THROUGH THE TECHNICAL AND PLANNING SECRETARIAT OF THE PRESIDENT**

ANNEX I

DEFINITIONS

Agreement has the meaning provided in the preamble to this Agreement.

Audit Plan has the meaning provided in Section 2.1(c).

Auditor has the meaning provided in Section 2.10(c).

Auditor / Reviewer Agreement has the meaning provided in Section 2.10(c).

Bank has the meaning provided in Section 3.1(c)(ii).

Bank Agreement has the meaning provided in Section 3.1(c)(ii).

BCS has the meaning provided in Section 2.1(d).

Board means the board of directors of MCA-El Salvador.

Bylaws has the meaning provided in Section 1.3(b)(v).

Commission has the meaning in Part C(ii) to Annex II.

Commission Funding Plan has the meaning provided in Part C(ii) to Annex II.

Common Payment System means the system pursuant to which payments of MCC Funding are made directly to vendors as further described in the Fiscal Accountability Plan.

Compact has the meaning provided in the first recital to this Agreement.

Counterparty has the meaning provided in Section 1.3(b)(vi).

Designated Rights and Responsibilities has the meaning provided in Section 1.3(a)(i).

Detailed Financial Plan has the meaning provided in Section 2.1(b).

Disbursement Period has the meaning provided in Section 3.1(a).

Disbursement Request has the meaning provided in Section 3.1(a).

ESIA has the meaning provided in Part A(iii)(A) to Annex II.

ESIC has the meaning provided at Part B(v) to Annex II and in paragraph 1(a)(ii) of Part B of Annex I to the Compact.

ESMP has the meaning provided in Part A(iii)(A) to Annex II.

ESMS has the meaning provided in Part A(ii) to Annex II.

Fiscal Accountability Plan has the meaning provided in Section 2.2.

Fiscal Agent Agreement has the meaning provided in Section 2.10(b)(i).

Fiscal Agent Disbursement Certificate has the meaning provided in Section 3.4(a)(v).

Fiscal Oversight Agreement has the meaning provided in Section 2.10(b)(ii).

Funded Agreement has the meaning provided in Section 1.3(b)(vi).

General Provisions Annex means the annex titled *General Provisions* posted from time to time on the MCC Website or otherwise made available to the Government.

Governing Document has the meaning provided in Section 2.9(g).

Government has the meaning provided in the preamble to this Agreement.

Government Account has the meaning provided in Section 3.1(c)(i).

Government Contribution has the provided in Section 2.13(a).

HSMP has the meaning provided in Part A(iii)(B) to Annex II.

IFC Performance Standards has the meaning provided in Section 1.2(b)(iv).

Implementation Plan has the meaning provided in Section 2.1.

Implementation Plan Document has the meaning provided in Section 2.1.

Lien has the meaning provided in Section 1.2(b)(iii).

Local Account has the meaning provided in Section 3.1(c)(i).

Material Agreement has the meaning provided in Section 2.9(c).

MCA Disbursement Certificate has the meaning provided in Section 3.4(a)(iii).

MCA-El Salvador has the meaning provided in Section 1.3(a)(i).

MCA-El Salvador Website has the meaning provided in Section 2.11(b), with the following address as of the date hereof: www.fomilenio2.gob.sv.

MCC has the meaning provided in the preamble to this Agreement.

MINED has the meaning provided at Part C(i) in Annex II.

Multi-Year Financial Plan has the meaning provided in Section 2.1(b).

Observer has the meaning provided in the Governance Guidelines.

Officer has the meaning provided in the Governance Guidelines.

O&M has the meaning provided at Part C(vi) in Annex II.

Outside Project Manager has the meaning provided in Section 2.10(a).

Party and Parties have the meaning provided in the preamble to this Agreement.

Periodic Report has the meaning provided in Section 2.8(a).

Permitted Designee has the meaning provided in Section 1.2(a).

PPP has the meaning provided Part B(iii) to Annex II and paragraph 1(a)(ii) of Part B of Annex I to the Compact.

PPP Law has the meaning provided at paragraph 1(a)(ii) of Part B of Annex I to the Compact.

Procurement Agent Agreement has the meaning provided in Section 2.10(d).

Procurement Agent Disbursement Certificate has the meaning provided in Section 3.4(a)(iv).

Procurement Plan has the meaning provided in Section 2.1(d).

RAP has the meaning provided in Part A(iii)(A) to Annex II.

Reviewer has the meaning provided in Section 2.10(c).

Social and Gender Integration Plan has the meaning provided in Section 2.5.

Stakeholder Committee means each of the consultative mechanisms described in Section C.1(c) of Annex I to the Compact, and any successor or other body (approved by MCC) of representatives of the private sector, civil society and local and regional governments that has been formally established in accordance with the Governance Guidelines to provide advice and input to MCA-El Salvador regarding the implementation of the Program.

TVET Governing Body Fund Plan has the meaning provided at Part C(iii) to Annex II.

Work Plan has the meaning provided in Section 2.1(a).

ANNEX II

CONDITIONS PRECEDENT TO MCC AND PROGRAM FUNDING

PART A. Conditions Precedent for All Projects

(i) Prior to the second Disbursement of Program Funding, MCA-El Salvador will have developed and approved a comprehensive Social and Gender Integration Plan, in form and substance satisfactory to MCC. The Social and Gender Integration Plan will include an assessment and define which entities associated with the Compact will be required to establish a gender unit, appoint a gender focal point, and/or develop a gender policy, indicating the required periods for its development and implementation in agreement with each entity's authority.

(ii) Prior to the initial Disbursement of Program Funding, MCA-El Salvador will have developed and approved a comprehensive Compact-wide Environment and Social Management System ("*ESMS*"). That ESMS will provide a framework and principles that will guide the development of Project specific ESMS.

(iii) Prior to the initial Disbursement of Program Funding for payment under a particular works or construction contract for a given Project or Activity, as determined by MCC, MCA-El Salvador must have submitted to MCC evidence in form and substance satisfactory to MCC that:

(A) MCA-El Salvador has developed a Project-specific ESMS; an Environmental and Social Impact Assessment ("*ESIA*"); an Environmental and Social Management Plan ("*ESMP*"); and/or a Resettlement Action Plan ("*RAP*"), and/or the relevant government entity has enacted any necessary national legal provisions necessary for timely implementation of property takings required by such RAP, each of which must be in form and substance satisfactory to MCC in accordance with the MCC Environmental Guidelines and IFC Performance Standards; and

(B) MCA-El Salvador or the appropriate Government entity is implementing the requirements of each ESMS, ESIA, ESMP, Health and Safety Management Plan ("*HSMP*") or RAP, as appropriate, in all material respects and consistent with the MCC Environmental Guidelines (including the IFC Performance Standards that are incorporated by reference therein).

(iv) Prior to any Disbursement of Program Funding on or after the commencement of year five (5) of the Compact Term, the Government must have submitted to MCC an initial draft Compact Closure Plan in accordance with the MCC Program Closure Guidelines.

PART B. Conditions Precedent for Investment Climate Project

(i) Prior to the Disbursement of MCC Funding for the Regulatory Improvement Activity, the Government will have created the Institution, pursuant to Section B.1(a)(i) to Annex I of the Compact.

(ii) Prior to the Disbursement of Program Funding for the Regulatory Improvement Activity after the first year of the Compact, the Government will have adopted and endorsed pursuant to the Compact the initial recommendations of the Institution, and the continued Disbursement of such funding will be contingent upon the Government's continued consideration and adoption of the Institution's proposed reforms, both as satisfactory to MCC.

(iii) Prior to the Disbursement of MCC Funding for the transaction advisor for a particular public-private partnership ("**PPP**") project under the Public-Private Partnerships Sub-Activity, the Government will have provided adequate funding and staff for that PPP project at PROESA, Hacienda, and the relevant line government entity, regulator, or sectorial oversight institution, satisfactory to MCC.

(iv) Prior to the Disbursement of MCC Funding for any PPP transaction advisor under the Public-Private Partnerships Sub-Activity, the Government will have adopted regulations mutually satisfactory to the Parties in furtherance of the PPP Law.

(v) Prior to the Disbursement of Program Funding for the El Salvador Investment Challenge ("**ESIC**"), a proportionate amount of the Government Contribution, up to the amount available for that time period or thereafter under the Government Contribution budget at Annex 3 to this PIA, will have been disbursed under the El Salvador Investment Challenge Sub-Activity under Section B.1(a)(ii) of Annex I of the Compact, as a ratio of the Government Contribution versus the amount of the Program Funding budgeted for ESIC.

(vi) Prior to the Disbursement of Program Funding for ESIC investments, the Board of Directors of MCA-El Salvador will have approved the ESIC Operations Manual, satisfactory to MCC.

PART C. Conditions Precedent for Human Capital Project

(i) Prior to the release of any bid package for works or construction for any school under the Human Capital Project, the Government will resolve any land title issue pertaining to that school, to the satisfaction of MCC. Prior to the Disbursement of Program Funding for schools under the Implementation of Full-Time Inclusive Model Sub-Activity, the Government's Ministry of Education ("**MINED**") will have developed an executable plan with a milestones schedule, satisfactory to MCC, to resolve the land titling for those schools.

(ii) Prior to the Disbursement of any Program Funding for staffing, consultants, advisors, or the operation of the National Curriculum Evaluation Commission ("**Commission**") under the Strengthening the National Education System Sub-Activity, MINED will have adopted a plan ("**Commission Funding Plan**"), satisfactory to MCC under the terms of the Compact, to absorb an increasing amount of the costs for the Commission, initially using the Government Contribution destined for this Sub-Activity and progressively transitioning to fund

from its national budget, separate from the Government Contribution, so that by the end of the fourth year of the Compact, the Government will fully fund the Commission pursuant to that plan. The Disbursement of Program Funding for the Commission during the Compact will be subject to continued satisfaction of the Government's funding commitments pursuant to the Commission Funding Plan.

(iii) Prior to the Disbursement of any Program Funding for the staffing, consultants, advisors, or the operation of the TVET Governing Body under the Integrated TVET Governance System Sub-Activity, the Government, or appropriate sub-entity, will have adopted a plan ("***TVET Governing Body Fund Plan***"), satisfactory to MCC, to absorb an increasing amount of the costs for the TVET Governing Body so that by the end of the fourth year of the Compact, the Government will fully fund the TVET Governing Body pursuant to that plan. The Disbursement of Program Funding for the TVET Governing Body during the Compact will be subject to continued satisfaction of the Government's funding commitments pursuant to the TVET Governing Body Fund Plan.

(iv) Prior to the second Disbursement of Program Funding for the Full-Time Inclusive Model Sub-Activity, MINED will have adopted a plan that details how it will include in its annual budget the recurring costs associated with the full-time inclusive model implemented under this Sub-Activity for each school based on the prioritization of needs identified by each school council as may be adjusted on an annual basis, satisfactory to MCC. Continued Disbursements for this Sub-Activity will be subject to MINED's continued reassessment of the budgeting as local needs evolve and the full-time inclusive model is expanded, the budgeting and the expenditure of funds pursuant to such plan.

(v) Prior to the Disbursement of Program Funding for the Education Quality Activity after the second year of the Compact, MCC and the Government will have agreed on, and the Government will have adopted, a plan for the continuous professional development for teachers and school directors focused on achieving measurable improvements in teacher and school director performance, the development and adoption of which will include collaboration with public and private institutions including, but not limited to, the National University of El Salvador and private universities providing teacher formation.

(vi) Prior to the Disbursement of Program Funding after the first year of the Compact for the Implementation of the Full-Time Inclusive Model Sub-Activity, MINED will have adopted an operations and maintenance ("***O&M***") plan under the Compact that provides the annual budget, and subsequent disbursements for planning and administration of O&M school funding, satisfactory to MCC.

(vii) Prior to the Disbursement of Program Funding for the Education Quality Activity, after the first year of the Compact, MINED will have adopted an implementation plan, satisfactory to MCC under the terms of the Compact, to develop and implement a gender policy within MINED and implement a gender unit and absorb an increasing amount of the costs initially using the Government Contribution destined for this Activity and progressively transitioning to fund from its national budget, separate from the Government Contribution, for the gender unit so that by the end of the fourth year of the Compact, the Government will fully fund the gender unit pursuant to that plan.

ANNEX III

GOVERNMENT CONTRIBUTION

(US\$ Million)								
Component	Base Year	2014	2015	2016	2017	2018	2019	Total
Investment Climate Project	-	-	1.3	13.7	17.3	13.6	4.1	50.0
Human Capital Project	-		-	4.5	4.0	5.0	1.5	15.0
Logistical Infrastructure Project	-		1.6	12.1	0.7	0.7	0.6	15.7
Administration	-	2.0	-	1.1	1.2	1.4	1.8	7.5
GRAND TOTAL	-	2.0	2.9	31.4	23.2	20.7	8.0	88.2

ANNEX IV

TAX SCHEDULES

In accordance with, and without limiting the generality of, Section 2.8 of the Compact, a Program of public nature and utility, the Government will ensure that MCA-El Salvador and all Providers, Covered Providers, Implementing Entities, contractors (prime contractors and subcontractors), consultants, private investors under the El Salvador Investment Challenge Sub Activity, and other entities and individuals (each, an “*Exempt Entity*” in the case of a legal entity or an “*Exempt Individual*” in the case of a natural person) that receive MCC Funding or the Government Contribution (both forms of funding hereinafter to be referred to as “*Compact Funding*”) directly or indirectly in furtherance of the Compact are exempt from Taxes.

The following Schedules identify specific taxes and mechanisms to implement compliance with the exemption from Taxes under the Compact. MCA-El Salvador and the Government’s Ministry of Finance will enter into an agreement to ensure the benefits of the exemption from Taxes and to specify the operation of the fiscal treatment and exemptions contemplated by Section 2.8 of the Compact and these Schedules. Should any potential liability for Taxes on Compact Funding arise that is not contemplated by the mechanisms set out in these Schedules, the Parties will, in accordance with Section 2.8 of the Compact, agree to the additional means to achieve an exemption. For the avoidance of doubt, the Government’s reimbursement of Compact Funding to ensure compliance of the exemption from Taxes under the Compact will include the reimbursement of any Government Contribution paid for Taxes.

As the direct beneficiary of the tax exemption under the Compact, MCA-El Salvador will facilitate and assist all other indirect beneficiaries of the tax exemption, including Providers, Covered Providers, contractors (prime contractors and subcontractors), consultants, and other entities and individuals that receive MCC Funding or a Government Contribution directly or indirectly in furtherance of the Compact, to ensure compliance with the exemption terms herein that apply to Taxes.

SCHEDULE A

INCOME TAX – CORPORATE AND/OR PERSONAL

Legal Basis for Exemption

1. Section 2.8 of the Compact.
2. The Government's Ministry of Finance recognizes that pursuant to Article 3 of the Income Tax Law of the Republic of El Salvador that all payments or transfers made with respect to Compact Funding to an Exempt Entity or Exempt Individual, regardless of their domicile, will not be considered as "income, profits, receipts or revenues" for the recipients of such and therefore are excluded from the definition of "income".

Beneficiaries of Exemption

1. MCA-El Salvador.
2. MCA-El Salvador Personnel.
3. Each Exempt Entity and Exempt Individual.

Procedures

Payments made with Compact Funding in furtherance of the Compact are excluded from any withholding, monthly, quarterly, or otherwise, of estimated income tax payments and from any withholding tax regime applicable to ordinary transactions.

MCA-El Salvador, each of its employees, ("*MCA-El Salvador Personnel*") and each Exempt Entity or Exempt Individual with whom the supply of goods, works or services has been contracted must have a Taxpayer Identification Number ("*TIN*") unless (i) an invoice under the Compact has been issued directly from a foreign country according to its commercial practice or (ii) that the Exempt Entity or Exempt Individual does not have permanent residence in El Salvador and otherwise but for the Compact would not be considered taxable or subject to taxation in El Salvador (either Exempt Entity or Exempt Individual, a "*Non-Resident*").

In the above cases any MCA El Salvador Personnel, Exempt Entity or Exempt Individual that earns income derived from Compact Funding will include such earnings as "excluded incomes or earnings which do not constitute an income" in their annual tax declaration. This declaration requirement does not apply to an Exempt Entity or Exempt Individual that does not have permanent residence in El Salvador and otherwise but for the Compact would not be considered taxable or subject to taxation in El Salvador.

MCA-El Salvador will notify the Government's General Administration of Internal Taxes ("*GAIT*") of the Ministry of Finance of the name of each MCA-El Salvador Personnel, Exempt

Entity or Exempt Individual responsible for declaring income derived under the Compact under this Schedule A. Upon receipt of such notice, the GAIT will accredit the exemption or exclusion of the income tax and the exoneration of the formal obligation to pay Taxes. The GAIT will issue the necessary certifications to each such MCA-El Salvador Personnel, Exempt Entity or Exempt Individual to achieve the benefits of the exemption from Taxes under this Schedule A. In notifying GAIT under this paragraph, MCA-El Salvador will provide GAIT the following information, as applicable, for each MCA-El Salvador Personnel, Exempt Entity or Exempt Individual: Name, NIT, job description, services rendered, goods sold, and estimated amounts to be paid.

In addition, at the conclusion of the Compact, MCA-El Salvador must remit a report to GAIT confirming the above-indicated specifications regarding the suppliers and contracted personnel, and with such information, the respective certifications will be issued, which will be remitted to the MCA-El Salvador within the month following the receipt of the information.

Exempt Entities and Exempt Individuals, regardless of tax-residence, will be subject to the payment of an employer's contribution for social security fees and pension funds, and will withhold an employee's share of such payments. MCA-El Salvador will use the Government Contribution to pay its portion of an employer's obligation for such fees and funds, and will withhold the employee contribution for such payments.

SCHEDULE B
REAL ESTATE TRANSFER TAX

Legal Basis for Exemption

1. Section 2.8 of the Compact.
2. Article 1, Number 6 of the Real Estate Transfer Tax Act.

Beneficiaries of Exemption

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures

This tax is levied on real estate transfers (“*Transfer Tax*”) during the existence or life of MCA-El Salvador and each Exempt Entity or Exempt Individual. The Transfer Tax is paid by the transferee of real property regardless of whether that person is a natural person or a legal entity. The first \$250,000 of the value of the transferred real property is exempt from the Transfer Tax. The value of transferred real property in excess of \$250,000 is taxed at 3% of the transactions value.

Real estate purchased with Compact Funding is not subject to the Transfer Tax payable by the transferee. Such transfer will qualify for an exemption from the Transfer Tax provided to El Salvador and its municipalities at Article 1, Number 6 of Real Estate Transfer Tax Act.

SCHEDULE C VALUE ADDED TAX (VAT)

Legal Basis for Exemption

1. Section 2.8 of the Compact.
2. Article 144 of the Constitution.

Beneficiaries of Exemption

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures

Services and goods are subject to a 13% value added tax (“VAT”). Pursuant to the Compact, the procurement by MCA-El Salvador and each Exempt Entity and Exempt Individual of goods, works or services will be exempt from VAT, and the following mechanisms will apply to implement this exemption.

Tax exemption for local purchase of goods (locally manufactured or imported and purchased from a vendor), works or local services

- Each Non-Resident Exempt Entity or Non-Resident Exempt Individual will receive a refund for VAT paid on such purchases or for payment for local services received through a reimbursement from MCA-El Salvador. Each Non-Resident Exempt Entity or Non-Resident Exempt Individual that has incurred VAT on the purchase of goods or receipt of local services will file for a refund on a quarterly basis. This application for a refund will include the provision to MCA-El Salvador of all invoices that include VAT for which Compact Funding was utilized. MCA-El Salvador will pay to such individual or entity any VAT paid with Compact Funding within 30-days of receipt of such invoices. Within that same 30-day time period, MCA-El Salvador will submit a request for reimbursement to the Government, and the Government will reimburse MCA-El Salvador within 60-days of receipt of such request.
- The procurement of goods, works or services in El Salvador by MCA-El Salvador, Exempt Entities or Exempt Individuals will be inclusive of VAT in compliance with El Salvador’s Value Added Tax Act (*Ley de Impuesto a la Transferencia de Bienes Muebles y a la Prestación de Servicios*). MCA-El Salvador will pay VAT on directly procured goods or services, or to Exempt Entities or Exempt Individuals for goods, works or services received or procured in furtherance of the Compact. The Government will provide in advance on a quarterly basis at least thirteen percent of the expected

Disbursement by MCA-El Salvador of both MCC Funding and the Government Contribution that may be subject to VAT as calculated for each year of the Program (the “**Advance VAT Payment**”), net of any unused Advance VAT Payment from the prior quarter. The Advance VAT Payment will be maintained by MCA-El Salvador subject to the same terms and conditions as the Government Contribution, except such will not count towards the Government Contribution. MCA-El Salvador will reconcile on an annual basis its use of this Advance VAT Payment. In any given quarter where the VAT paid exceeds the Advance VAT Payment, within 30-days of the payment of VAT or within receipt of an invoice from an Exempt Entity or Exempt Individual that includes VAT, MCA-El Salvador will submit a claim for refund from the Government, which the Government will reimburse within 60-days of the receipt of such.

Imported Services

Services sourced from outside El Salvador and imported will be exempt from VAT, and reverse VAT or related withholding will not attach to or be required for any payments made for such services, regardless of whether those payments are made within or without El Salvador.

SCHEDULE D

TAXES AND FEES ON VEHICLE REGISTRATION

Legal Basis for Exemption.

1. Section 2.8 of the Compact.

Beneficiaries of Exemption.

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures.

Vehicles are subject to separate vehicle registration and permitting fees under El Salvador Law (“*Goods First Registry Tax Act*”). The initial registration of a vehicle is subject to a special tax paid for the Public Vehicle Registry of El Salvador, for which the purchase or registration under the Compact is exempt. This special tax is based on the category and type of vehicle, engine cubic centimeter size, with special categories for ambulances pickups, panel vans, trucks, cement trucks, garbage trucks, motorcycles, ATVs, and special purpose vehicles. The special tax rate ranges from 1% to 8%. Vehicles purchased in furtherance of the Compact are exempt from this initial registration tax that applies at the purchase and registration of a vehicle.

SCHEDULE E

SPECIAL CONTRIBUTIONS ON DIESEL FUEL/GASOLINE

Legal Basis for Exemption.

1. Section 2.8 of the Compact.

Beneficiaries of Exemption.

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures.

Each beneficiary under this Schedule will be reimbursed for paying any of the following taxes on wholesale or bulk purchases or retail purchases with respect to any purchases made in furtherance of the Compact:

- The import/refinery tax on petroleum products, levied on importers or refiners as well as direct imports made by individuals or corporations for their own consumption under the Import Duty Law (*CAUCA*).
- The quarterly ad valorem tax adopted by the Ministry of Economy under the Special Tax Law on Fuels (*Ley de Impuesto Especial Sobre Combustibles*), as published in the Official Journal.
- The Road Maintenance Fund (*FOVIAL*) levy.
- The levy to subsidize public transport service tariffs under the *Ley Transitoria para la Estabilización de las Tarifas del Servicio Público de Transporte Colectivo de Pasajeros*.
- The cross-subsidy for propane gas consumption under the Stabilization and Economic Development Fund Law (*Fondo de Estabilización y Fomento Económica (FEFE) ley*).

For all such purchases, the Government will reimburse MCA-El Salvador, an Exempt Entity or Exempt Individual for any duties, taxes and levies paid with Compact Funding. On a quarterly basis, MCA-El Salvador, an Exempt Entity or Exempt Individual will compile its own receipts made for petroleum products for any of the duties or levies identified under this Schedule that have been paid, and will file such with MCA-El Salvador and MCA-El Salvador will file with the Ministry of Finance for reimbursement. The Ministry of Finance will reimburse MCA-El Salvador, or an Exempt Entity or Exempt Individual through MCA-Salvador, for this total amount of duties and levies paid on petroleum products, within 60 days of receipt of request for reimbursement.

SCHEDULE F

MUNICIPAL TAXES, FEES, CONTRIBUTIONS AND TARIFFS

Legal Basis for Exemption.

1. Section 2.8 of the Compact.
2. Articles 49-51, General Municipal Fiscal Law (*Ley General Tributaria Municipal*), as a program of public interest.

Beneficiaries of Exemption.

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures.

Municipal authorities are autonomous from the Government. As such, municipal authorities may issue tariffs or taxes. Municipal taxes and tariffs differ from one municipality to another.

Tariffs: A municipal tariff, fee or contribution is adopted in a resolution issued by a municipal council. Such tariffs are adopted to fund, for example, public projects and services. A municipal tariff becomes effective and mandatory eight days after adoption and public notice in the National Gazette (*Diario Oficial*). Municipal fees, tariffs or contributions that do not bear a reasonable relationship, as determined by MCC, to the cost of the service being provided should be exempted under the Compact. The Government will reimburse MCA-El Salvador, an Exempt Entity or Exempt Individual for any fee, tariff or contribution paid for a municipal tariff with Compact Funding.

Taxes: Municipal taxes are passed by a municipal council, and then must be approved by El Salvador's National Assembly. A municipal tax becomes effective and mandatory eight days after adoption and public notice in the National Gazette (*Diario Oficial*). Under the Compact, MCA-El Salvador, and each Exempt Entity and Exempt Individual are exempt from municipal taxes as the Compact is a program of public interest and utility.

SCHEDULE G

TRADE TAX – IMPORT VAT/EXPORT TAX

Legal Basis for Exemption.

1. Section 2.8 of the Compact.
2. El Salvador Import VAT Act (*Ley de Impuesto sobre la Transferencia de Bienes Muebles y la Prestación de Servicios*).
3. Import Duty Act (*Código Aduanero Uniforme Centroamericano (CAUCA)*), and Import Duty Act regulations (*Reglamento del Código Aduanero Uniforme Centroamericano (RECAUCA)*).
4. Simplified Customs Procedures Act (*Ley de Simplificación Aduanera*).

Beneficiaries of Exemption.

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures.

This Schedule applies to the exemption of the procurement and receipt of goods, works and services acquired with Compact Funding from import VAT, import duties, and export duty and taxes (together, “*Trade Taxes*”). MCA-El Salvador, and each Exempt Entity and Exempt Individual will procure goods, works and services exempted from Trade Taxes.

The applicable taxes and fees are:

- 13% VAT
- 0-20% import duties
- Related permit fees and levies.

Trade Taxes are calculated by Government’s General Administration of Customs (“*DGA*”) of the Ministry of the Finance (Dirección General de Aduanas) based on the value of a good, work or service based on the provider’s or seller’s invoice from outside of El Salvador. Certain goods are subject to a permit for which a levy must be paid. In addition any charges or penalties related to late payment of Trade Taxes are also excluded.

Goods, works and services imported under the Compact are free of all Trade Taxes, including duties, fees and levies, at the moment of introduction to El Salvador. Goods under a temporary import permit, including equipment, vehicles and household goods, to be used on the production

of goods, works or services in furtherance of the Compact, will be introduced to El Salvador free of all Trade Taxes and will be authorized to be returned to its country of origin without any tax, fee or levy. If a temporary imported good is not returned from El Salvador, the owner or entity with possession of that good will be liable for any Trade Taxes due on such good at its then depreciated value. A temporary imported good may be subject to a fee for any delay in either returning the good to its country of origin or failure to apply for an extension of the time period for use in El Salvador after the good has remained in El Salvador past its authorized time period.

MCA-El Salvador will coordinate with DGA to secure the necessary tax exemption certifications for goods, works and services liable for Trade Taxes, and related fees, under this Schedule.

MCA-El Salvador will also inform the DGA of goods to be imported for the production of goods, works and services in furtherance of the Compact, and of the re-exporting of any temporary imported good. MCA-El Salvador will request the corresponding permits, and will provide the following information to the DGA for the entity to benefit from an exemption under this Schedule: Name or legal representative, address and tax identification number of the Exempt Entity or Exempt Individual, contract number under the Compact issued by MCA-El Salvador, and a brief description of the type of service or works rendered, and/or goods to be imported or re-exported, and port of entry or port of exit, as appropriate. The DGA will immediately issue a tax exemption certificate to MCA-El Salvador for the benefit of the Exempt Entity, Exempt Individual, or MCA-El Salvador, and will also assist in the authorization of the re-exportation of goods, and will advise the DGA of any misuse of the imported goods or delays on re-exportation.

SCHEDULE H
INDIRECT TAXES

Legal Basis for Exemption.

1. Section 2.8 of the Compact.

Beneficiaries of Exemption.

1. MCA-El Salvador.
2. Each Exempt Entity and Exempt Individual.

Procedures.

MCA-El Salvador, Exempt Entities and Exempt individuals, will be exempt from the financial operations tax (“***Financial Operations Tax***”) under the Financial Operations Tax Law (*Ley de Impuesto a las Operaciones Financieras*), and any other indirect tax other than those addressed in Schedules A through Schedule G above (the “***Indirect Taxes***”).

With respect to the Financial Operations Tax, MCA-El Salvador will notify the office of the Directorate General of Internal Taxes (*Dirección General de Impuestos Internos (DGII)*) within the Ministry of Finance as to each Exempt Entity or Exempt Individual. The *DGII* will post on its website the names of each Exempt Entity or Exempt Individual as a means to notify all financial institutions in El Salvador to exempt any transaction of MCA-El Salvador, Exempt Entities, or Exempt Individuals to or from a special Compact operations bank account established by each such entity from the Financial Operations Tax.