

**CONFORMED COPY**

**LOAN NUMBER 7177-PE**

## **Loan Agreement**

**(Trade Facilitation and Productivity Improvement Technical Assistance Project)**

**between**

**REPUBLIC OF PERU**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 11, 2003**

**LOAN NUMBER 7177-PE**

**LOAN AGREEMENT**

AGREEMENT, dated September 11, 2003, between the REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

(a) “*Banco de la Nación*” means the Borrower’s national bank in charge of managing the Borrower’s public funds, established pursuant to Law 16000 of January 27, 1966, as amended to the date of this Agreement;

(b) “CITES” means *Centros de Innovación Tecnológica*, operated as centers established within the Borrower’s Ministry of Production, public and private partnerships, to provide knowledge services and training to micro, small and medium enterprises regarding specific products; established within the Borrower’s Ministry of Production;

(c) “CNC” means *Consejo Nacional de Competividad*, the Borrower’s National Council for Competitiveness established pursuant to the Borrower’s Supreme Decree No. 024-2002-PCM, dated April 23, 2002, and amended by the Borrower’s

Supreme Decree No. 068-2002-PCM, dated July 13, 2002, the Borrower's Supreme Decree No. 100-2002-PCM, dated October 10, 2002, and the Borrower's Supreme Decree No. 022-2003-PCM, dated March 5, 2003;

(d) "DIGESA" means *Dirección General de Salud Ambiental del Ministerio de Salud*, the unit for environmental health established within the Borrower's Ministry of Health;

(e) "*Exporta Perú*" means the Borrower's initiative to provide a quality seal in manufacturing and marketing for certification of products;

(f) "FMR" means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(g) "Implementation Letter" means the letter of even date herewith, from the Borrower to the Bank, containing the performance indicators for the Project and the financial management action plan;

(h) "INDECOPI" means *Instituto Nacional de Defensa de la Competencia y de la Protección de la Propiedad Intelectual*, the Borrower's national institute for defense of competitiveness and protection of intellectual property, established pursuant to the Borrower's Law No. 25868 of November 6, 1992;

(i) "ISO" means IOS which means International Organization for Standardization;

(j) "MEF" means the Borrower's Ministry of Economy and Finance;

(k) "MINCETUR" means *Ministerio de Comercio Exterior y Turismo*, the Borrower's Ministry for Foreign Trade and Tourism;

(l) "Operational Manual" means the manual referred to in Section 3.05 of this Agreement;

(m) "OSITRAN" means *Organismo Supervisor de la Inversión en Infraestructura de Transporte de Uso Público*, the Borrower's entity in charge of supervising infrastructure investment in the public transport system, established pursuant to the Borrower's Law No. 26917 of January 23, 1998;

(n) "Participating Agency" or "PA" means an agency referred to in Section 3.01 of this Agreement, with or without legal personality, whose participation in the Project is mandatory, either by law or a government administrative act such as a Supreme Decree, Supreme Resolution or Ministerial Resolution, and/or is critical due to its expertise in the subjects addressed by the Project;

(o) “Participating Inter-institutional Agreement” or “PIA” means any of the agreements referred to in Section 3.02 of this Agreement;

(p) “PCM” means *Presidencia del Consejo de Ministros*, the Borrower’s Presidency of the Council of Ministers;

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

(r) “PRODUCE” means *Ministerio de la Producción*, the Borrower’s Ministry of Production;

(s) “*Productos Bandera*” means the Borrower’s initiative to promote products of Peruvian origin which are closely associated with the image of Peru in the world (such as *pisco* and *alpaca* wool);

(t) “PROINVERSION” means *Agencia de Promoción de la Inversión* established pursuant to the Borrower’s Supreme Decree No. 027-2002-PCM of April 25, 2002;

(u) “PROMPEX” means *Comisión de Promoción de Exportaciones*, the Borrower’s commission for export promotion established pursuant to the Borrower’s Legislative Decree No. 805 of April 3, 1996;

(v) “PROMPYME” means *Comisión de Promoción de la Pequeña y Micro Empresa*, established pursuant to the Borrower’s Supreme Decree No. 059-97-PCM of November 25, 1997;

(w) “PROVIAS” means *Programa Nacional de Mantenimiento y Conservación Vial*, the Borrower’s National Program for Road Maintenance and Conservation established within the Borrower’s *Ministerio de Transportes y Comunicaciones*, pursuant to the Borrower’s Supreme Decree No. 033-2002-MTC of July 12, 2002;

(x) “Regions” means the Borrower’s territorial units with political and administrative autonomy;

(y) “SENASA” means *Servicio Nacional de Sanidad Agraria*, the Borrower’s National Service for Agricultural Sanitation, established pursuant to the Borrower’s Law No. 25902 of November 27, 1992;

(z) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(aa) "SUNAT" means *Superintendencia Nacional de Administración Tributaria*, the Borrower's national superintendency for tax administration (including customs' administration), established pursuant to the Borrower's Law No. 24829 of June 8, 1988.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to twenty million Dollars (\$20,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) Upon receipt of notification from the Bank allowing the establishment of the Special Account, the Borrower, through PCM, may open and maintain in Dollars a separate special deposit account in the *Banco de la Nación* or in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank including appropriate protection against set-off, seizure or attachment, for the purpose of the Project. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of

the General Conditions to but not including the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out: (a) Parts A, B, C and D of the Project, through the PCM, and the assistance of the participating agencies (pursuant to the terms of the corresponding Participating Inter-institutional Agreement); and (b) Part E of the Project, through the PCM, all with due diligence and efficiency and in conformity with appropriate administrative, financial, trade and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower, through PCM, shall, prior to carrying out a Project activity (under Parts A, B, C or D of the Project) in which the assistance of a Participating Agency is needed, enter into an agreement (the Participating Inter-institutional Agreement; hereinafter referred to as PIA) with such Participating Agencies, each such PIA to be in form and substance analogous to the model PIA contained in the Operational Manual and providing, *inter alia*, the following:

- (i) that each Participating Agency shall, in a manner consistent with the Project implementation responsibilities set forth in Section 3.01 of this Agreement, carry out, or assist PCM in carrying out, the Project as detailed in the applicable strategic plan, attached to said PIA;
  - (ii) that the Borrower, through PCM, shall provide in a timely manner the goods and/or services required for each Participating Agency to assist in the implementation of the Project;
  - (iii) that each Participating Agency shall assist PCM to allow full compliance with the obligations set forth in Section 3.09 and Article IV of this Agreement; and
  - (iv) that the PCM and each Participating Agency shall agree on the appropriate design and implementation of a communication and outreach program for the Project directed to the private sector, including but not limited to workshops, advisory panels and consultations between the private and public sector;
- (b) (i) The Borrower, through PCM, shall exercise its rights and carry out its obligations under each PIA in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan; and

- (ii) except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any PIA or any provision thereof.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. The Borrower, through PCM, shall establish and maintain, during the implementation of the Project, a Project coordination unit, with functions and responsibilities satisfactory to the Bank, at all times headed by a Project coordinator and assisted by staff in adequate numbers, and with qualifications and experience acceptable to the Bank.

Section 3.05. The Borrower, through PCM, shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to include, *inter alia*: (a) functions and organization of the PCU; (b) personnel and terms of reference of key personnel of the PCU, including: (i) the Project coordinator; (ii) the head of the operations unit; (iii) the head of the financial management unit; (iv) the Project accountant; and (v) the procurement specialist; (c) disbursements arrangements under the Project; (d) flow of funds and monitoring and evaluation procedures in respect of the Project; and (e) the model PIA.

Section 3.06. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall cause PCM to:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan to ensure the sustainability of the Project; and
- (b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.07. The Borrower, through PCM, shall ensure that the actions to be undertaken by the Borrower as a result of the carrying out of the Project shall not violate or contradict any provisions set forth in international trade agreements to which Peru is a party and that have been ratified by the Borrower's Congress.

Section 3.08. The Borrower, through PCM, shall ensure the due and timely completion of all actions provided for in the financial management action plan reflected in the Implementation Letter.

Section 3.09. The Borrower, through PCM, shall:



(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare in conjunction with each Participating Agency, under terms of reference satisfactory to the Bank, and furnish to the Bank, not later than twelve months after the Effective Date and each semester thereafter during the period of Project implementation, a report integrating the results of the evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank shortly after each such report's preparation, each report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said report and the Bank's views on the matter.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower, through PCM, shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations resources and expenditures related to the Project.

(b) The Borrower, through PCM, shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank

shall have reasonably requested, including as part of the information to be provided in each such report a management letter concerning internal controls; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of FMRs or statements of expenditure, the Borrower, through PCM, shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the FMRs or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.09 of this Agreement, the Borrower, through PCM, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

## **ARTICLE V**

### **Effective Date; Termination**

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the PCU shall have been duly established and made operational with adequate staff, including the appointment of the Project coordinator as provided in Section 3.04 of this Agreement;

(b) the Operational Manual shall have been adopted as provided in Section 3.05 of this Agreement;

(c) that financial management arrangements, including the features thereof set forth in the financial management action plan, have been finalized in form and in substance satisfactory to the Bank and become operational; and

(d) a detailed procurement plan for the first year of the Project shall have been prepared by the Borrower to the Bank's satisfaction.

Section 5.02. The date December 10, 2003 is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VI**

**Representative of the Borrower; Addresses**

Section 6.01. The Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Economy and Finance  
Jr. Junín 319  
Lima, Peru

Facsimile:

(511) 426-8500

For the Bank:

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

Cable address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PERU

By /s/ Beatriz Merino Lucero  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marcelo Giugale  
Acting Regional Vice President  
Latin America and the Caribbean

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

| <u>Category</u>   | <u>Amount of the<br/>Loan Allocated<br/>(expressed in<br/>US Dollars)</u> | <u>% of<br/>Expenditures<br/>To be Financed</u>           |
|---|---|---|
| (1) Goods   | 3,560,000   | 84%   |
| (2) Consultants' Services   | 11,840,000  | 85%   |
| (3) Training  | 1,260,000   | 82%   |
| (4) Operating Costs   | 1,140,000   | 84%   |
| (5) Front-end Fee   | 200,000   | Amount due under<br>Section 2.04 of this<br>Agreement     |
| (6) Premia for Interest<br>Rate Caps and<br>Interest Rate Collars | -0-   | Amount due under<br>Section 2.09 (c) of<br>this Agreement |
| (7) Unallocated   | 2,000,000   |   |
| <b>TOTAL</b>  | <u><u>20,000,000</u></u>  |   |

2. For the purposes of this Schedule:

(a) the term "Training" means reasonable expenditures (other than for consultants' services) incurred for: (i) training materials; (ii) rental of training facilities and other expenditures related to organization of training events; (iii) transportation expenses of trainees; (iv) subsistence expenses for trainees; (v) scholarships and fellowships for training courses locally or abroad; and (vi) study tours and internships locally or abroad; and

(b) the term "Operating Costs" means reasonable expenditures for transportation and communication services, office rental and maintenance, office materials and supplies, printing and document reproduction services and vehicle operation and maintenance required by the PCU and other expenditures related to organizational meetings of PCU (none of which would have been incurred absent the Project) for the implementation and supervision of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent; (b) services under consulting contracts with individuals costing less than \$50,000 equivalent; (c) services under consulting contracts with firms costing less than \$100,000 equivalent; (d) training; and (e) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to assist the Borrower in: (a) establishing a streamlined, integrated and effective institutional and policy framework to increase non-traditional exports; and (b) developing and implementing initiatives designed to foster the entrance of new export market participants, especially small and medium producers of non-traditional goods.

#### Part A: Strategic Planning Improvement and Institutional Framework for Export Development

Strengthening the Borrower's trade facilitation strategy and supporting its institutional framework, through:

1. Development of a program of actions to support MINCETUR, said program to consist of, *inter alia*:
  - (a) development of export plans for each Region;
  - (b) establishment, operation and maintenance of five local offices to oversee the export promotion efforts made for each Region;
  - (c) provision of technical assistance and training to MINCETUR; and
  - (d) design and implementation of a training program for private sector entrepreneurs to become exporters.
2. Development of a program of actions to support PROMPEX, said program to consist of, *inter alia*, design and implementation of a national technical assistance program for small- and medium-size companies to promote and improve their ability to export.
3. Development of a program of actions to support PROMPYME, said program to consist of, *inter alia*:
  - (a) the promotion of trade facilitation services to small and micro enterprises;
  - (b) the design and implementation of training programs for small and micro enterprises to train them in export procedures;



(c) the carrying out of a study to provide support to small and micro enterprises to assist them in meeting requirements to facilitate their integration into the export supply chain;

(d) the implementation of the results of the study referred to under (c) above;  
and

(e) the provision of training and the development and dissemination of instructional material to strengthen the ability of small and micro enterprises in incorporating improved environmental practices in their activities.

4. Provision of support to MEF in the carrying out of a study to identify, on a regional level, the constraints faced by local producers to export, as well as to make recommendations to reduce such constraints.

5. Development and implementation of a program of actions geared at expanding the Borrower's exports, such program consisting of, *inter alia*:

(a) development of adequate strategies for inter-governmental coordination of trade policy based on "best practices";

(b) implementation of the Borrower's "*Productos Bandera*" initiative;

(c) development of a pilot promotion program to penetrate select foreign markets (US, China, Germany, Canada and Brazil);

(d) institutional strengthening of the Borrower's Ministry for Foreign Affairs, including technological infrastructure improvement, enhanced access to international market information and strengthening of said Ministry's local commercial support division and selected foreign commercial office; and

(e) design and implementation of pilot programs aimed at accessing new markets via the compliance with sanitary standards for selected products.

6. Provision of support to PRODUCE to set up and promote a nation-wide program for suppliers to develop local supply chains and promote the formation of clusters, including, *inter alia*:

(a) the carrying out of studies to identify high potential productive sectors and geographical areas for the creation of suppliers' program centers;

(b) the establishment, operation and maintenance of suppliers' program centers to promote contracting opportunities for national large- and medium-sized enterprises that seek products and/or services from small- and medium-sized local enterprises;

(c) the provision of management techniques and quality principles training to entities benefiting from the Project to ensure contracting sustainability; and

(d) establishment of working groups around selected productive chains in order to promote chain development.

7. Identification of the Borrower's private investment deterrents through the carrying out of studies, including, *inter alia*:

(a) on administrative barriers to private investment;

(b) on competitiveness analysis and global benchmarking; and

(c) on fiscal constraints.

8. Provision of support for the institutional strengthening of PROINVERSIÓN through, *inter alia*:

(a) the provision of training programs for its staff on green field investments and concessions;

(b) the provision of training for regional government officials in concessions and investment promotion principles;

(c) the implementation of an integrated system of assistance to potential private investors and regional governments; and

(d) the implementation of a quality management and results evaluation system, aimed at supervising the ongoing results of the various functions performed by PROINVERSION.

Part B: Adoption and Implementation of Effective Quality Practices

1. Provision of support to the Borrower in the implementation of an integrated system of quality management at a national level, through, *inter alia*:

(a) the establishment, operation and maintenance of a national quality council involving public sector institutions, universities and private business associations;

(b) the design and implementation of a technical assistance and training program to facilitate the accreditation of laboratories and other organizations that provide certification services;

(c) the improvement of existing mechanisms for the diffusion of standards, technical norms and quality awareness, including World Trade Organization's benefits and obligations;

(d) the support of the upgrading and expansion of the *Exporta Perú* pilot program hosted by PROMPEX; and

(e) the development of an inter-laboratory comparisons program for local and international laboratories, and promotion of mutual recognition agreements among such laboratories.

2. Provision of support to SENASA in order to:

(a) have its certification and compliance results recognized internationally;

(b) improve its agricultural sanitary certification process; and

(c) establish a toxic waste laboratory.

3. Provision of support to DIGESA, including, *inter alia*:

(a) the update and formulation of sanitary norms for processed foods; and

(b) the provision and use for DIGESA of high performance liquid chromatography equipment in its laboratory in Lima, the provision of equipment for three of its regional laboratories, as well as the provision of field equipment for sanitary inspectors.

4. Provision of support to the Borrower's CITES program through, *inter alia*:

(a) the diagnosis, restructuring and implementation of the CITES program to improve its financial sustainability and market strategy and contribute to the improvement of quality standards and promotion of small and medium exporters;

(b) the accreditation of the CITES' network laboratories; and

(c) the implementation of CITES' pilot programs for packaging products and services, agribusiness products, textile and garment products, and wood and furniture products.

#### Part C: Improving Access to Export Finance

Provision of support to the Borrower in reviewing its corporate restructuring procedures through the carrying out of the following activities on key aspects affecting credit access by small and medium enterprises:

1. Strengthening of the bankruptcy legal system and regulatory framework administered by INDECOPI, including, *inter alia*:

- (a) the implementation of an audit system for administrative and bankruptcy agents;
- (b) the provision of training to its staff;
- (c) the carrying out of communications campaigns; and
- (d) the carrying out of impact and management studies of the bankruptcy process.

2. Provision of support to MEF through the carrying out of studies regarding restrictions on access to finance by small- and medium-size enterprises including, *inter alia*:

- (a) the design of flexible procedures for the collateralization of assets and their eventual realization; and
- (b) the diagnosis of existing barriers to formalization of small- and medium-size enterprises.

3. Provision of support to PROMPYME through the carrying out of studies to identify innovative and market-friendly policy actions and financial instruments, based on international 'best practices', to improve access to credit by small and micro enterprises.

Part D: Reduction of Logistic Costs

Support the Borrower through:

1. Carrying out of studies to improve the infrastructure and trade related logistic services to include, *inter alia*:

- (a) determinants for private investments in secondary transport services;
- (b) feasibility of a high technology multi modal terminal to service El Callao port and airport facilities;
- (c) recommendations to improve the performance of the regional ports and access, including feasibility analysis;

(d) feasibility for improving the linkage of the North-Pan American highway and the El Callao port and airport facilities;

(e) international comparative best practices on ports' efficiency and their integration into the exports chain;

(f) analysis and recommendations addressing port and airport security concerns regarding goods' shipment of the Borrower's trading partners;

(g) analysis of commercial flows of goods, transport modes and the development of relevant indexes; and

(h) diagnosis on imports and exports procedures in ports and airports.

2. Design and implementation of an information system to provide statistical transport data compared to international standards, including impact indicators for each transport mode.

3. Provision of support to PROVIAS through the carrying out of studies to improve road maintenance, to include, *inter alia*, the following:

(a) strengthening of highway maintenance systems; adoption of cost recovery and collection mechanisms for sustainability of road maintenance;

(b) adoption of truck weight and dimension control mechanisms and recommendations to address current problems; and

(c) an environmental impact study of new road maintenance procedures.

4. Provision of support to OSITRAN through the carrying out of studies and technical assistance to improve the supervision and regulation of public transport services including, *inter alia*:

(a) specific market, traffic and tariff studies, indicators identification, and concessions impact evaluation;

(b) systematization and adequacy of supervising procedures including indicators' definition;

(c) improvement of the legal, regulatory and contractual framework for the supervision of privatized transport services;

(d) design and development of a web site;

(e) implementation of pilot user service center; and

(f) compliance with ISO 9000 standards.

5. Strengthening of SUNAT's custom information and control systems through, *inter alia*:

(a) the development and implementation of an airport customs information system including training and communication of risk management procedures;

(b) the provision of equipment for the El Callao port customs laboratory, the provision of scanners for accompanied luggage control at the Lima international airport and related training; and

(c) the design and implementation of communication and education programs for importers.

Part E: Project Administration, Development of Competitiveness Strategy and Environmental Analysis

1. Strengthening of the technical and managerial capabilities of the PCU to carry out its Project management, coordination and supervision responsibilities under the Project, through:

(a) the payment of Project coordination and administration costs, including salaries of incremental PCU staff and incremental operating costs;

(b) the provision of training for PCU staff on administrative and technical matters;

(c) the provision of office equipment, including computers, software, printers and copy machines, materials and supplies; and

(d) the provision of technical assistance for preparing regulations for strengthening public procurement practices.

2. Provision of operational support to CNC, through:

(a) the payment of salaries of incremental technical staff and incremental operating costs;

(b) the provision of technical assistance to design and implement the Borrower's national competitiveness strategy;

(c) the provision of training for CNC staff on technical matters; and

(d) the provision of office equipment, including computers, software, printers and copy machines, materials and supplies.

3. Carrying out of an environmental analysis, including:

(a) strategic environmental assessment of two industries to be agreed upon between the Borrower and the Bank; and

(b) support to CONAM to: (i) facilitate the implementation of environmental management systems guided by the ISO 14,000 standards; and (ii) design a national eco-efficiency prize.

\* \* \*

The Project is expected to be completed by June 30, 2006.

### SCHEDULE 3

#### Amortization Schedule

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

| <u>Date Payment Due</u>                                | <u>Installment Share<br/>(Expressed as a percentage)</u> |
|--|--|
| On each April 15 and October 15                        |  |
| beginning October 15, 2011<br>through October 15, 2016 | 8.33%  |
| on April 15, 2017                                      | 8.37%  |

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.



3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **SCHEDULE 4**

### **Procurement**

#### Section I. Procurement of Goods

##### Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

##### Part C: Other Procurement Procedures

##### 1. National Competitive Bidding

(a) Goods estimated to cost \$50,000 or more but less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of goods under this part C.1 shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods to be procured in accordance with the procedures referred to in Part B.1 above and each contract for goods estimated to cost the equivalent of \$100,000 or more to be procured in accordance with the procedures referred to in Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts for goods to be procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services, estimated to cost less than \$350,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$ 250,000 equivalent may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

#### 2. Single Source Selection

Services that meet the criteria set forth in paragraphs 3. 9 (a) (b) or (d) of the Consultant Guidelines which are estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$ 500,000 equivalent, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3. 8, 3.10 and 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services up to an aggregate amount not to exceed \$ 8,200,000 for individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every year during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III: Special Provisions

Part A:

In addition and without limitation to any other provision set forth in this Schedule or the Guidelines, the following rules shall govern all procurement of goods referred to in Part C.1 of Section I of this Schedule:

1. Foreign suppliers shall not be required to be locally registered as a condition of submitting bids.
2. Reference value shall not be required to be published in the bidding documents.
3. No minimum number of responsive bids shall be required prior to awarding a contract.
4. Foreign suppliers shall not be required to legalize their bidding documents or any documentation related to such documents with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to submitting their bids.
5. Prices of awarded contracts may be adjusted, provided that the contracts have a duration of more than one year.
6. The bidding documents used for the procurement of goods shall be acceptable to the Bank.

Part B:

In addition and without limitation to any other provision set forth in this Schedule or the Consultant Guidelines, the following rules shall govern all employment of consultants referred to in Section II of this Schedule:

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
2. Reference value shall not be required to be published in the request for proposals documents.
3. No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.
4. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participating in the selection process.

5. Prices of awarded contracts may be adjusted, provided that the contracts have a duration of more than one year.

6. The requests for proposal and the contract forms for the employment of consultants shall be acceptable to the Bank.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equal to \$1,500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$750,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the



Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the

Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.