

CONFORMED COPY

LOAN NUMBER 3717 PE

Loan Agreement

(Transport Rehabilitation Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated June 3, 1994

LOAN NUMBER 3717 PE

LOAN AGREEMENT

AGREEMENT, dated June 3, 1994, between REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower intends to contract from Kreditanstalt fur Wiederaufbau (KfW) a loan (the KfW Loan) in an amount equivalent to DM 65,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the KfW Loan Agreement) to be entered into between the Borrower and KfW;

(C) the Borrower intends to contract from the OPEC Fund a loan (the OPEC Fund Loan) in an amount equivalent to \$5,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the OPEC Fund Loan Agreement) to be entered into between the Borrower and the OPEC Fund; and

(D) Parts B and D of the Project will be carried out by, respectively, Empresa Nacional de Ferrocarriles S.A. (ENAFER) and the Municipalidad de Lima Metropolitana (MLM) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ENAFER and MLM a portion of the proceeds of the Loan as provided in this Agreement;

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 and in the Project Agreements (as hereinafter defined) of even date herewith;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, subparagraph (k) is relettered as sub-paragraph (l) and a new subparagraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Beneficiaries" means applicants for Subloans who meet the eligibility criteria set forth in Schedule 2 to the MLM Project Agreement;

(b) "CMCPL" means Caja Municipal de Credito Popular de Lima, an agency of the Borrower established pursuant to Law No. 10769 dated January 20, 1947, as amended;

(c) "CMCPL Directive" means the directive, including the model loan contract, to be issued by CMCPL setting forth the operational procedures and terms and conditions for Subloans to be made under Part D.2 of the Project;

(d) "CORPAC" means Corporacion Peruana de Aeropuertos y Aviacion Comercial, created by Legislative Decree No. 99 of May 29, 1981;

(e) "Department" means each of the departments referred to in Article 189 of the Borrower's constitution;

(f) "DM" means Deutsche Mark, the currency of the Federal Republic of Germany;

(g) "ENAFER" means Empresa Nacional de Ferrocarriles S.A., created by Legislative Decree No. 102 of May 29, 1981;

(h) "ENAFER Project Agreement" means the agreement between the Bank and ENAFER of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the ENAFER Project Agreement;

(i) "ENAFER Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and ENAFER pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the ENAFER Subsidiary Loan Agreement;

(j) "Environmental Manual" means the manual for contractors to be approved by the Bank for use in the Project in accordance with the provisions of Section 3.06(a) of this Agreement;

(k) "Highway Repair and Maintenance Project" means the Borrower's project for repair and maintenance of national roads as described in Annex

A of the Loan Agreement dated January 7, 1992 between the Borrower and the Inter-American Development Bank;

- (l) "km" means kilometers;
- (m) "Lima Airport" means Aeropuerto Internacional Jorge Chavez owned by the Borrower and operated by CORPAC;
- (n) "Minister" means the Minister in charge of MTCC;
- (o) "MLM" means the Municipalidad de Lima Metropolitana, governed by Law No. 23853, published in El Peruano of June 9, 1984;
- (p) "MLM Project Agreement" means the agreement between the Bank and MLM of even date herewith, as the same may be amended from time to time, and such term includes all schedules to the MLM Project Agreement;
- (q) "MLM Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and MLM pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the MLM Subsidiary Loan Agreement;
- (r) "MTCC" means the Borrower's Ministry of Transport, Communications, Housing and Construction;
- (s) "National Roads Laboratory" means the Direccion de Geologia y Mecanica de Suelos of MTCC;
- (t) "PCU" means the "Unidad de Rehabilitacion de Infraestructura de Transportes", a project coordination unit established within MTCC prior to the date of this Agreement and referred to in Section 3.04 of this Agreement;
- (u) "Project Agreements" means the ENAFER Project Agreement and the MLM Project Agreement;
- (v) "Project Preparation Advance" means the project preparation advance granted by the Bank to the Borrower pursuant to an exchange of letters dated September 2, 1993 and September 17, 1993 between the Borrower and the Bank;
- (w) "Special Account" means the account referred to in Section 2.02 (c) of this Agreement; and
- (x) "Subloan" means a loan made or to be made by CMCPL to Beneficiaries under Part D.2 of the Project.

## 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 the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred fifty million dollars (\$150 million equivalent), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

(c) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions acceptable to the Bank, including appropriate protection against set-off, seizure or attachment. 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, 1999 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 commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall, through the PCU, coordinate all Parts of the Project and carry out Parts A, C and E of the Project with due diligence and efficiency and in conformity with appropriate administrative, transportation, engineering, financial and environmental practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause ENAFER and MLM to perform all their obligations set forth in, respectively, the ENAFER Project Agreement and the MLM Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ENAFER and MLM to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend a portion of the proceeds of the Loan to ENAFER and MLM under subsidiary loan agreements to be entered into between the Borrower and, respectively, ENAFER and MLM, under terms and conditions which shall have been approved by the Bank.

(c) The Borrower shall exercise its rights under the ENAFER Subsidiary Loan Agreement and the MLM Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the ENAFER Subsidiary Loan Agreement or the MLM Subsidiary Loan Agreement, or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, C and E of 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 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts B and D of the Project shall be carried out by, respectively, ENAFER and MLM pursuant to Section 2.03 of the Project Agreements.

Section 3.04. The Borrower shall maintain in MTCC the project coordination unit with staff in sufficient numbers and with qualifications and experience acceptable to the Bank in accordance with terms of reference for the PCU acceptable to the Bank, which shall include, inter alia, responsibility for overall Project coordination (including the preparation of the reports referred to in Section 3.07 (a) below, processing of disbursement requests and management of the Special Account) and for the execution of Parts A, C and E of the Project (including the procurement of goods, works and services, progress monitoring, supervision of suppliers, contractors and consultants, and management of the account referred to in Section 4.02 of this Agreement).

Section 3.05. (a) The Borrower shall ensure proper coordination of the activities under Part C of the Project with the operations of CORPAC at Lima Airport and, to that end, shall establish a coordinating committee to be chaired by the Minister or Vice-Minister of MTCC.

(b) Prior to signing the construction contract for the runway rehabilitation of Lima Airport under Part C (1) of the Project, the Borrower shall: (i) engage an independent expert to advise the Minister or the Vice-Minister for Transport; and (ii) engage consultants for construction supervision.

Section 3.06. (a) The Borrower shall require all contractors carrying out works under Part A of the Project to use an environmental manual acceptable to the Bank, said manual to include, inter alia: (i) the applicable environmental and natural resource legislation and regulations; (ii) explicit prohibitions and environmental behavior guidelines for work crews, especially for work along sensitive areas; (iii) procedures for proper selection and management of quarries, borrow pits, gravel extraction along rivers, and other sources of construction material, and eventual rehabilitation of affected areas through soil replacement and revegetation; (iv) procedures for selection of camp sites, management of camp wastes, and guidelines for camp dismantling and abandonment; (v) procedures for proper disposal of excavated earth and spoil material to avoid contaminating streams or causing other unnecessary damage; and (vi) procedures for proper disposal of waste from construction machinery and equipment.

(b) The Borrower shall maintain within MTCC an environmental office with terms of reference satisfactory to the Bank, which shall include, inter alia, the following: (i) advising the Minister on environmental concerns in the transport sector; (ii) establishing environmental policies and procedures for transport projects; (iii) incorporating environmental objectives in feasibility and design studies; (iv) ensuring that all bidding documents and contracts for Part A of the Project incorporate the Environmental Manual; (v) monitoring compliance with the Environmental Manual by contractors; and (vi) monitoring environmental factors and maintaining a data base. Said office shall be staffed with full-time personnel in such number and with such qualifications and experience as shall be acceptable to the Bank.

Section 3.07. Without limitation upon the provisions of Section 9.01 of the General Conditions, the Borrower shall, through the PCU:

(a) prepare quarterly progress reports for all Parts of the Project, including the Parts executed by ENAFER and MLM, in a format acceptable to the Bank (said format to include the following subjects: (i) progress achieved against agreed implementation indicators and disbursement schedules; (ii) updated implementation indicators and disbursement schedules for the remainder of the Project; (iii) status of compliance with the covenants contained in the Loan Agreement, the ENAFER Project Agreement and the MLM Project Agreement; and (iv) detailed work programs and action plans for the next two quarters and forward these reports to the Bank within one month of the end of each quarter;

(b) annually conduct with the Bank, ENAFER and MLM a formal review of the performance of the Project and the attainment of its objectives and invite KfW and the OPEC Fund to participate in such reviews;

(c) organize a thorough mid-term review of the Project with the Bank, ENAFER and MLM at a time not later than thirty months after the date of this Agreement in order to: (i) assess progress in Project implementation on the basis of implementation indicators acceptable to the Bank; and (ii) consider proposals for restructuring or reorienting the Project; and invite KfW and the OPEC Fund to participate in such review; and

(d) promptly take all such action, satisfactory to the Bank, as shall be necessary for the efficient execution of the Project or the attainment of its objectives if, as a result of any of the annual reviews referred to in subparagraph (b) above or the mid-term review referred to in subparagraph (c) above, progress in the execution of the Project or in the achievement of its objectives is not satisfactory to the Bank.

Section 3.08. The Borrower, through the PCU, shall forward to the Bank

for its review and comment an action plan for improving MTCC's roads administration and finance by December 31, 1994.

Section 3.09. Without limitation upon the provisions of Section 3.01 (a) (ii) of this Agreement, for the purpose of the execution of Part B (2) of the Project, the Borrower shall ensure that the reform of ENAFER shall be based on a division of ENAFER into at least three separate operating divisions, with the eventual division of ENAFER into legally separate companies at which time the Borrower, together with ENAFER, shall present to the Bank a proposal for the modification of this Agreement, the ENAFER Project Agreement and the ENAFER Subsidiary Loan Agreement.

Section 3.10. For the purpose of the execution of Part A (2) of the Project, derelict bridges whose reconstruction is estimated to cost more than \$500,000 equivalent shall not be replaced by MTCC unless the reconstruction will yield an internal economic rate of return in excess of 20 percent, said rate to be calculated in accordance with a methodology acceptable to the Bank, and MTCC shall furnish the Bank evidence thereof satisfactory to the Bank.

Section 3.11. The Borrower, through the PCU, shall employ and then second to ENAFER for the execution of Part B(1) of the Project, a coordinator, a mechanical engineer and a track engineer, all with terms of reference and qualifications and experience acceptable to the Bank. The terms of reference for the coordinator shall include responsibility for: (a) management of the procurement of works and goods for Part B(1) of the Project, including quality control of goods received and their installation; and (b) payment of suppliers and contractors for Part B(1) of the Project in accordance with their contract.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A, C and E of the Project of the departments or agencies of the Borrower responsible for carrying out said Parts of the Project or any part thereof.

(b) The Borrower 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 appropriate auditing principles 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, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; 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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and 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 or payment out of the Special 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 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. The Borrower shall open a separate account in local currency in a commercial bank and shall deposit at the beginning of each month into that account such amounts as shall be necessary to cover anticipated payments during that month for expenditures on account of goods, works or services procured or to be procured under Parts A, C and E of the Project.

Section 4.03. The Borrower shall deposit at the beginning of each month in the local currency account referred to in Section 4.02 of the ENAFER Project Agreement such amounts as shall be necessary to cover anticipated payments during that month for expenditures on account of goods, works or services procured or to be procured under Part B.1 of the Project and any expenditures required for the execution of Part B.2 of the Project.

Section 4.04. The Borrower shall: (a) maintain its policy of levying road user charges in excess of road maintenance expenditures; and (b) present each year a budget request to its legislature in an amount acceptable to the Bank, said approval to be sought not later than October 31 of each year and said amount to be not less than \$50,000,000 equivalent, for the purpose of financing the maintenance of national roads other than those covered under Part A of the Project and those covered under the Highway Repair and Maintenance Project and thereafter release such funds for such purpose in timely fashion.

Section 4.05. The Borrower shall, on a schedule acceptable to the Bank, assume ENAFER's debt and provide, or cause to be provided, the necessary funds for clearance of ENAFER's arrears with utility companies.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) ENAFER shall have failed to perform any of its obligations under the ENAFER Project Agreement. In such case, the Bank may, after consultation with and by notice to the Borrower, only suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures incurred with respect to Part B of the Project.

(b) MLM shall have failed to perform any of its obligations under the MLM Project Agreement. In such case, the Bank may, after consultation with and by notice to the Borrower, only suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account for expenditures incurred with respect to Part D of the Project.

(c) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that ENAFER or MLM will be able to perform their obligations under, respectively, the ENAFER Project Agreement or the MLM Project Agreement. For the purpose of this paragraph, the division of ENAFER into legally separate companies as well as the privatization of ENAFER or of any such successor companies shall be deemed to be an extraordinary situation.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions,



the following additional events are specified namely that the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the local currency accounts referred to in Section 4.02 of this Agreement, Section 3.02 of the MLM Project Agreement and Section 4.02 of the ENAFER Project Agreement have been opened; and

(b) the PCU has been fully staffed in accordance with the provisions of Section 3.04 of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the ENAFER Project Agreement has been duly authorized or ratified by ENAFER, has been duly executed, and is legally binding upon ENAFER in accordance with its terms; and

(b) that the MLM Project Agreement has been duly authorized or ratified by MLM, has been duly executed, and is legally binding upon MLM in accordance with its terms.

Section 6.03. The date September 1, 1994 is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representatives of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Economy and Finance  
Ministry of Economy and Finance  
Jiron Junin 319  
Lima 1, Peru

For the Bank:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

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/ Ricardo Luna Mendoza  
Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Javed Burki  
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:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works under Part A of the Project	63,000,000	80%
(2) Civil works under Part B of the Project	1,100,000	80%
(3) Civil works under Part C of the Project	17,000,000	70%
(4) Civil works under Part D of the Project	1,700,000	70%
(5) Equipment and materials under Parts A and C of the Project	3,100,000	100% of foreign expenditures and 75% of local expenditures
(6) Equipment and materials under Part B of the Project	29,000,000	100% of foreign expenditures and 75% of local expenditures
(7) Subloans under Part D of the Project	600,000	100% of amounts disbursed by CMCPL under Subloans
(8) Design studies, construction supervision, other consult- ing services and training	21,000,000	100%
(9) Refunding of Project Preparation	1,500,000	Amounts due pursuant to Section 2.02 (b)

Advance	of this Agreement
(10)Unallocated	12,000,000
	<hr/>
TOTAL	150,000,000
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2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) prior to the date of this agreement, except that withdrawals under Categories (2) and (6) in an aggregate amount not exceeding \$700,000 equivalent and under Category (8) in an aggregate amount not exceeding \$500,000 equivalent may be made on account of payments made for expenditures before that date but after December 1, 1993;

(b) under categories (2) and (6) of the table in paragraph 1 above until: (i) the Bank has received the action plan, acceptable to it, referred to in Section 2.07 of the ENAFER Project Agreement; (ii) the Bank has received the audit report for 1993 in accordance with the provisions of Section 4.01(b) of the ENAFER Project Agreement; and (iii) the ENAFER Subsidiary Loan Agreement has been executed on behalf of the Borrower and ENAFER and the Bank has received an opinion or opinions, within the meaning of Section 12.02(c) of the General Conditions, that the ENAFER Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and ENAFER, has been duly executed, and is legally binding upon the Borrower and ENAFER in accordance with its terms;

(c) under categories (4) and (7) of the table in paragraph 1 above until the MLM Subsidiary Loan Agreement has been executed on behalf of the Borrower and MLM and the Bank has received an opinion or opinions, within the meaning of Section 12.02(c) of the General Conditions, that the MLM Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and MLM, has been duly executed, and is legally binding upon the Borrower and MLM in accordance with its terms; and

(d) under category (7) of the table in paragraph 1 above, in addition to the conditions specified in the preceding paragraph (c), until the CMCPD Directive has been issued in accordance with the provisions of Section 2.07 of the MLM Project Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods not exceeding \$200,000 equivalent, works not exceeding \$1,000,000 equivalent, and services not exceeding \$100,000 equivalent, 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: (i) to rehabilitate essential transport infrastructure; (ii) to implement institutional reforms in the road and railway subsectors with a view to achieving improved resource use and sustainable development; and (iii) to lay the groundwork for future projects to improve road management, to increase private participation in the transport sector, and to improve mobility of the poor.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time

to time to achieve such objectives:

Part A: Road Rehabilitation and Maintenance

(1) Road Rehabilitation

(a) Rehabilitation of the following national road sections:

- (i) Corral Quemado - Rio Nieva (about 176 km)
- (ii) Rio Nieva - Rioja (about 100 km)
- (iii) Rioja - Tarapoto (about 135 km)
- (iv) Huanuco - Tingo Maria (about 120 km)
- (v) Tarma - La Merced (about 72 km)
- (vi) La Merced - Satipo (about 122 km)

(b) Detailed engineering for rehabilitation of the following national road sections:

- (i) Tingo Maria - Pucallpa (about 256 km)
- (ii) Villa Rica - Puente Chanchamayo (about 38 km)
- (iii) such other national road sections as may be acceptable to the Bank.

(2) Bridge Program

Acquisition of a minimum stock of Bailey bridges, dismantling and transport to an appropriate storage location of temporary Bailey bridges and their replacement by permanent structures, and, on the basis of the findings of a general study of the physical condition and priorities for reconstruction of existing bridges in the regions served by the roads to be rehabilitated under Part A (1) above, the reconstruction of derelict bridges.

(3) Road Maintenance Program

Execution of a pilot road maintenance program on about 620 km of roads feeding directly into the Corral Quemado-Rioja-Tarapoto corridor with a view to: (i) provide a basis for estimating unit costs to perform typical maintenance activities by contract; (ii) test and promote the use of micro-enterprises for road maintenance; (iii) examine the deterioration pattern of various road surface types under alternative maintenance strategies; (iv) provide a focus for field training; and (v) lay the foundation for a decentralized road maintenance strategy.

(4) Traffic Safety Program

- (a) Formulation of a comprehensive traffic safety strategy.
- (b) Acquisition and use of urgently needed safety materials.
- (c) Initiation of the most urgently needed investments in safety improvements in accordance with the strategy established pursuant to subparagraph (a) above.

(5) Institutional Improvement Program

Improvement of the capacity of the General Directorate of Roads of MTCC to plan, cost, carry out and control primary road network maintenance through, inter alia: (a) the carrying out of a network inventory including a pavement surface condition survey and traffic volume counts over the national road system; (b) establishment of agencies responsible for detailed design, budgeting, implementation and monitoring of maintenance activities at the level of each Department; and (c) strengthening of the National Roads Laboratory in terms of equipment and staffing.

Part B: Railway Rehabilitation and Restructuring

Preparation for the privatization of ENAFER through:

(a) execution of the most urgently needed investments to keep ENAFER operating during the preparation of its privatization, including: (i) track rehabilitation; (ii) locomotive and wagon rehabilitation; (iii) lengthening of switchbacks; (iv) acquisition and use of workshop and track maintenance equipment; (v) tele-communication works; and (vi) execution of an environmental and safety study of the Cuzco - Machu Picchu line; and

(b) execution of a plan of action for the reform of ENAFER's managerial, operational and financial framework.

Part C: Lima Airport Rehabilitation

(a) Rehabilitation of the main runway.

(b) Rehabilitation of the taxiway.

(c) Installation of lighting and instrument landing systems.

Part D: Pilot Project for Non-motorized Transport

Execution of a pilot project for non-motorized transport in the Lima-Callao industrial area, consisting of:

(a) construction of four trunk bicycle-ways together with bicycle-lanes providing connections to low and middle income residential areas and parking facilities;

(b) provision of Sub-loans for the purchase of low-cost bicycles through the Caja Municipal de Credito Popular de Lima; and

(c) carrying out of educational and promotional campaigns.

Part E: Studies, Technical Assistance and Training

(a) Policy and Investment Studies

Execution of a program of policy and investment studies with respect to: (i) road administration and finance; (ii) organizational reform of MTCC; and (iii) preparation of future transportation projects.

(b) Project Support

Execution of a program of technical assistance to the MTCC, the PCU, ENAFER and MLM in direct support of the execution of the Project.

(c) Training

Execution of a training program, both in Peru and abroad, in road management, railway management and privatization, and other areas necessary for the proper execution of the Project.

\* \* \*

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 15, 1999	2,840,000
June 15, 2000	2,945,000
December 15, 2000	3,050,000
June 15, 2001	3,165,000
December 15, 2001	3,280,000
June 15, 2002	3,395,000
December 15, 2002	3,520,000

June 15, 2003	3,650,000
December 15, 2003	3,780,000
June 15, 2004	3,920,000
December 15, 2004	4,060,000
June 15, 2005	4,210,000
December 15, 2005	4,360,000
June 15, 2006	4,520,000
December 15, 2006	4,685,000
June 15, 2007	4,855,000
December 15, 2007	5,030,000
June 15, 2008	5,215,000
December 15, 2008	5,405,000
June 15, 2009	5,600,000
December 15, 2009	5,805,000
June 15, 2010	6,015,000
6,235,000	December 15, 2010
June 15, 2011	6,460,000
December 15, 2011	6,695,000
June 15, 2012	6,940,000
December 15, 2012	7,190,000
June 15, 2013	7,450,000
December 15, 2013	7,725,000
June 15, 2014	8,000,000

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than 11 years before maturity	0.55
More than 11 years but not more than 16 years before maturity	0.80
More than 16 years but not more than 18 years before maturity	0.90
More than 18 years before maturity	1.00

#### SCHEDULE 4

##### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

##### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD

Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Bidders for works to be carried out under Parts A and C of the Project and which are estimated to cost the equivalent of \$10,000,000 or more shall be prequalified as provided in paragraph 2.10 of the Guidelines.

3. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$200,000 or more.

#### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Peru may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

#### Part C: Other Procurement Procedures

1. Specialized equipment with a small number of suppliers may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list satisfactory to the Bank of qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. Works estimated to cost the equivalent of less than \$3,000,000, up to an aggregate amount equivalent to \$19,000,000, and equipment and materials estimated to cost the equivalent of less than \$200,000 per contract, up to an aggregate amount equivalent to \$700,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Works estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$2,000,000, and equipment and materials estimated to cost the equivalent of \$25,000 or less per contract, up to an aggregate amount equivalent to \$500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three contractors or three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

#### Part D: Review by the Bank of Procurement Decisions

##### 1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A (2) hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

##### 2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to: (i) each contract for works estimated to cost the equivalent of \$1,000,000 or more; (ii) each contract for goods estimated to cost the equivalent of \$200,000 or more; and (iii) the first contract for works and the first contract for goods estimated to cost less than the amounts set forth in, respectively, subparagraphs (i) and (ii) above, the

procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

3. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out Parts A, C and E of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

### SCHEDULE 5

#### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and

(b) the term "Authorized Allocation" means an amount equivalent to \$5 million to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 and that procedures for its operation, satisfactory to the Bank, have been established, 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 a deposit or deposits 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 in 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment 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.

