

**CONFORMED COPY**

**LOAN NUMBER 7977-PE**

# **Loan Agreement**

**(Third Results and Accountability Development Policy Loan)**

**between**

**REPUBLIC OF PERU**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated December 14, 2010**



## **LOAN AGREEMENT**

Agreement dated December 14, 2010, entered into between REPUBLIC OF PERU (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

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

### **ARTICLE II — LOAN**

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifty million Dollars (\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02. (a) the Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement; and (b) the Borrower’s Director of Public Indebtedness at the Ministry of Economy and Finance, or the person who shall be designated in writing as their representative, will serve as the representative of the Borrower for purposes of taking any action required or permitted to be taken under the provisions of Section 2.02(a) of this Agreement and Article II of the General Conditions.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to The Reference Rate for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of

the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Rate; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of the General Conditions relating to *Cooperation and Consultation* (Originally Section 5.10 and renumbered as Section 5.08 pursuant to paragraph 3 Section II of the Appendix to this Agreement), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

### **ARTICLE III — PROGRAM**

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:

- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

#### **ARTICLE IV — REMEDIES OF THE BANK**

- 4.01. The Additional Events of Suspension consist of the following, namely that, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

#### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that, the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the appropriateness of the Borrower's macroeconomic policy framework.
- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on June 11, 2012.

#### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. Except as provided in Section 2.02(b) of this Agreement, the Borrower's representative is its Minister of Economy and Finance, provided that the Borrower's Director of Public Indebtedness may, by him or herself, represent the Borrower to sign amendments to this Agreement which are considered of an administrative and non-financial nature. The signing by such Director of an amendment shall constitute a representation by the Borrower that any such amendment is considered to be administrative and non-financial in nature.

6.02. The Borrower's Address is:

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

Facsimile: (511) 626-9921

6.03. The Bank's Address is:

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

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

AGREED at Lima, Peru, as of the day and year first above written.

**REPUBLIC OF PERU**

**By /s/ Ismael Benavides Ferreyros  
Authorized Representative**

**INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT**

**By /s/ C. Felipe Jaramillo**

**Authorized Representative**

## SCHEDULE 1

### Program Actions; Availability of Loan Proceeds;

#### Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

1. Governance Reforms for Equity and Accountability in the Social Sectors:
  - (a) The Borrower has: (i) caused RENIEC, through RENIEC resolution (“*Resolución Jefatural*”) No.472-2010-JNA/RENIEC of May 31, 2010, published in the Borrower’s Official Gazette “*El Peruano*” dated June 3, 2010, and Memorandum No 001302-2010/SGEN/RENIEC dated September 20, 2010, to establish, inside its National Registry for Identification and Civil Status, a national database of birth certificate data including Unique Personal Identity Numbers (“CUI”); and (ii) through Supreme Decree No. 183-2010-EF dated September 3, 2010 issued by MEF and published in Borrower’s Official Gazette “*El Peruano*” on September 4, 2010, included in its Municipal Incentives Scheme (“PIM”), the incentives for said data to be remitted to RENIEC in a timely way;
  - (b) The Borrower has, through MEF, as confirmed in the Explanatory Memorandum of the 2010 Budget Law (“*Exposición de Motivos 2010*”) annexed to Memorandum No. 034-2010-EF/76.02 dated September 16, 2010, carried out the preparation of selected parts of its 2010 draft budget law based on a detailed analysis of progress towards the projected goals in the production of services, in intermediate outcomes and in final outcomes, for the strategic programs of the performance budgeting system, as applied to nutrition (*articulado nutricional*); maternal and neonatal health; learning outcomes; and citizens’ identity (*identidad ciudadana*).
2. Standards and Accountability for Improved Outcomes in Education:
  - (a) The Borrower has, through its Ministry of Education (“MINEDU”), as set forth in Official Letters (“*Oficios*”) No. 079-2010 ME/SPE/PLANMED/UMC dated September 1, 2010 and No. 082-2010 ME/SPE/PLANMED/UMC dated September 17, 2010 signed by the “Director of *Unidad de Medición de la Calidad*”: (i) delivered in 2009 and 2010 the results from the universal standard test (“UST”) for public and private schools and individual students, directly to said schools; and (ii) carried out a media campaign to advise parents to request their



child's scores and encourage said schools to discuss their results and plan future related improvements.

3. Standards and Accountability for Improved Outcomes in Health:

- (a) The Borrower has, through MEF, as an input to the planning process, and as per written confirmation received through Memorandum No. 034-2010-EF/76.02 dated September 16, 2010 and Memorandum No. 079-2010-EF/76.02 dated October 5, 2010, completed a census of all specialized birthing facilities ("FON centers") in 13 (thirteen) of its high-risk regions, thereby producing data on capacity, service quality and institutional births production; and
- (b) The Borrower has: (i) through SIS, as evidenced by Official Letters ("*Oficios*") No. 1108-2010/SIS/J dated September 1, 2010 and No. 1311-2010-SIS/J dated October 11, 2010, completed in 2008-2009 a pilot of budgetary transfers to health posts calculated on a per capita basis, linked to performance indicators in its Ayacucho, Apurimac and Cajamarca regions; and (ii) through, respectively, Executive Decree ("*decreto de urgencia*") No. 048-2010 dated July 10, 2010 issued by the President of the Republic and published in the Borrower's Official Gazette "*El Peruano*" on July 11, 2010, Supreme Decree No. 177-2010 and its annex dated August 23, 2010 issued by the President of the Republic and published in the Borrower's Official Gazette "*El Peruano*" on August 24, 2010, and Official Letter ("*Oficio*") No. 1308-2010-SIS/J dated October 6, 2010, made an adjustment in the 2010 SIS budget, based on per capita costs for the insured population of the SIS, to enable it to meet the estimated cost of the implementation of the Universal Health Insurance Law (AUS) in pilot regions.

4. Standards and Accountability for Improved Outcomes in Nutrition:

The Borrower has, through MEF, as attested to by Memorandum No. 034-2010-EF/76.02 dated September 16, 2010 and supported by copies of relevant budget lines for 2010, increased the 2010 budget for CREDs over the 2009 budget by 330%, and selectively allocated said additional funds to the Borrower's regions with a low level of CRED spending relative to their malnutrition levels.

**Section II. Availability of Loan Proceeds**

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

- B. Allocation of Loan Amounts.** The Loan is allocated in a single withdrawal tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<b>Amount of the Loan Allocated (expressed in Dollars)</b>
Single Withdrawal Tranche	50,000,000
<b>TOTAL AMOUNT</b>	<b>50,000,000</b>

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.
- D. Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the appropriateness of the Borrower's macroeconomic policy framework.
- E. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:
1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
  2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank and consistent with the Borrower's public accounting and budgeting regulations.
- F. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.
- H. Closing Date.** The Closing Date is December 1, 2013.

## SCHEDULE 2

### Amortization Schedule

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

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
April 15, 2022	35%
October 15, 2022	30%
April 15, 2023	35%

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

withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

## APPENDIX

### Section I. Definitions

1. “CRED” means *Control de Crecimiento y Desarrollo*, Child Growth and Development, a service provided by the Ministry of Health and introduced in the results-based-budgeting system of the Borrower as part of the Nutritional Strategic Program, which was started in 2008.
2. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
3. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
  4. “MEF” means, depending on the context, the Borrower’s Ministry of Economy and Finance or the Minister in charge of said Ministry.
  5. “Municipal Incentive Plan” and “PIM” mean the Borrower’s plan established on January 11, 2010 through *Decreto Supremo* (DS) N° 002-2010-EF published in the Borrower’s Official Gazette “*El Peruano*” on January 12, 2010, as a permanent mechanism for resource allocation to municipal governments to ensure the prompt delivery of information to the CUI database.
  6. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated October 6, 2010 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
  7. “RENIEC” means *Registro Nacional de Identificación y Estado Civil*, the Borrower’s public entity with full legal personality in charge of organizing and administering the Borrower’s single registry of identification of natural persons established pursuant to Borrower’s Law No. 26497 dated July 12, 1995 and published in the Borrower’s Official Gazette “*El Peruano*” on July 11, 1995.

8. “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
9. “SIS” means *Seguro Integral de Salud*, the Borrower’s Integrated Health Insurance System, established pursuant to Borrower’s Law No. 27657 dated January 17, 2002 and published in the Borrower’s Official Gazette “*El Peruano*” on January 29, 2002.
10. “Unique Personal Identity Numbers” and “CUI” means *Código Único de Identidad*, the Borrower’s system for attribution of a unique identity number to each new born in its territory.
12. “Universal Health Insurance Law” and “AUS” means *Ley de Aseguramiento Universal en Salud*, as established in Borrower’s Law No. 29344 dated March 30, 2009 and published in the Borrower’s Official Gazette “*El Peruano*” on April 3, 2010.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

6. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

*“Section 5.07. Program Monitoring and Evaluation*

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (b) The term “Financial Statements” and its definition are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”