

CONFORMED COPY

LOAN NUMBER 7978-PE

Loan Agreement

**(Additional Financing for the National Rural Water Supply
and Sanitation Project - PRONASAR)**

between

REPUBLIC OF PERU

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 14, 2010

LOAN AGREEMENT

Agreement dated December 14, 2010, between REPUBLIC OF PERU (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for Parts A.3, A.4, A.5 and D of the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank 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 thirty million Dollars (\$30,000,000), 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”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower’s Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Minister of Economy and Finance or the Borrower’s Director of Public Indebtedness or any person whom any of them shall designate in writing.
- 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 60 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 amortization schedule set forth in Schedule 3 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 Spread; 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.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project (as set forth in Schedule 1 to this Agreement) through VMCS and UGP in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely, that the General Sanitation Services Law or the Municipal Organic Law or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of the Borrower to perform any of its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Operational Manual 2010, in form and substance satisfactory to the Bank, has been adopted by the Borrower's Ministry of Housing, Construction and Sanitation through a Ministerial Resolution.
- 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 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 and/or notices to this Agreement which are considered of an administrative and non-financial nature. The signing by such Director of an amendment and/or notice shall constitute a representation by the Borrower that any such amendment and/or notice 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

Project Description

The objective of the Project is to increase the sustainable use of water supply and sanitation facilities in rural areas and small towns in the territory of the Borrower while emphasizing improvements in hygiene practices and training in operation and maintenance.

For purposes of this Agreement, the Project consists of Parts A.3, A.4, A.5 and D of the Original Project without modifications, as set forth below:

Part A: Water Supply and Sanitation in Rural Areas

3. Rural Subprojects for the Rehabilitation and Expansion of Water Supply and Sanitation Services

Rehabilitation and expansion of piped water supply and sanitation services for Communities in the Initial Project Area and in the Expanded Project Area.

4. Rural Subprojects for the Construction of Water Supply and Sanitation Services

Construction of water supply and sanitation services for Communities including piped networks with house connections and/or multi-family taps, improved point sources and non-conventional technologies in the Initial Project Area and in the Expanded Project Area.

5. Technical Assistance to District Municipalities and Communities

Provision of technical assistance for the rehabilitation, expansion and/or construction of water supply and sanitation services through OTSs and OSs in favor of:

(a) JASSs, by providing training in the areas of accounting, administration system repair operation and maintenance of the systems and hygiene education; and

(b) District Municipalities for the purposes of long-term administrative and technical support to JASSs.

Part D: Project Management

Provision of technical assistance and equipment to support the operation of UGP and its regional offices for Project management, including external audits, and monitoring and evaluation systems.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Borrower shall:
 - (a) maintain, until completion of the Project, the UGP as the Project management unit within VMCS responsible for overall Project planning, implementing, supervision, monitoring and evaluation, including: (i) preparing Annual Implementation Programs; (ii) issuing Project implementation guidelines on priorities in targeted regions and viable packaging of contracts; (iii) providing training and guidance to Regional Governments, District Municipalities, DNS, OTSs and OSs; (iv) maintaining the Project monitoring system; (v) updating the Procurement Plan and preparing the terms of reference and short lists for consultants' services; and (vi) the procurement processes (including prior review thresholds) of the goods, works and services of the Project; and
 - (b) ensure that the UGP is staffed, at all times during the execution of the Project, by core professional staff in structure, in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank, and selected in accordance with competitive and transparent procedures satisfactory to the Bank, all as prescribed in the Operational Manual 2010.
2. The Borrower shall maintain, until the completion of the execution of the Project, the Project Steering Committee, which shall convene at least once every year and shall submit minutes of said meetings to the Bank.

B. Operational Manual 2010

1. The Borrower, through VMCS and UGP, shall carry out the Project or cause the Project to be carried out in accordance with a manual (the Operational Manual 2010), including the Environmental and Social Management Framework, the Annual Implementation Program, the Procurement Plan and the Performance Indicators.

2. Except as the Bank may otherwise agree, the Borrower, through VMCS and UGP, shall not amend or waive the Operational Manual 2010 or any provision thereof without the Bank's prior written approval. In case of any conflict between the terms of the Operational Manual 2010 and those of this Agreement, the terms of this Agreement shall prevail.

C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Borrower, through VMCS and UGP, shall carry out the Project in accordance with the provisions of the Environmental and Social Management Framework.
2. (a) Prior to the approval of any proposed Rural Subproject, the Borrower (through VMCS and UGP), shall ensure that the OTS gives full support for the establishment of the JASSs, as needed, and applies the ESMF, in order to:
 - (i) carry out an environmental and social screening and assessment of such proposed Rural Subproject; and
 - (ii) prepare a plan for the prevention, mitigation and remediation of any potential environmental or social consequences arising from the implementation of such proposed Rural Subproject.
- (b) During the implementation of any Rural Subproject, the Borrower (through VMCS and UGP), shall ensure that OTS carries out the plans referred to in subparagraph (a) (ii) above as prescribed in the Operational Manual 2010, all in a manner acceptable to the Bank.

E. Rural Subprojects

1. With respect to Rural Subprojects, the Borrower:
 - (a) through the UGP, shall enter into and thereafter implement: (i) contracts with OSs (Rural OS Contracts) under terms and conditions satisfactory to the Bank, for the purposes of ensuring the cooperation of such OSs in the supervision of Rural Subprojects by providing continuous supervision, organization, training and education services to JASSs for the carrying out of Rural Subprojects; (ii) contracts with OTSs (Rural OTS Contracts), under terms and conditions satisfactory to the Bank, for the

purposes of ensuring the cooperation of such OTSs in the implementation of Rural Subprojects by providing services to the JASSs, Communities and District Municipalities for the carrying out of Rural Subprojects; and (iii) contracts with Work Contractors (Work Contractor Contracts) under terms and conditions satisfactory to the Bank, for the purposes of carrying out works under a Rural Subproject; and

- (b) through VMCS, shall enter into and thereafter implement: (i) agreements with District Municipalities (Rural Framework Agreements) under terms and conditions satisfactory to the Bank for the purposes of carrying out Rural Subprojects; and (ii) agreements with District Municipalities and JASSs (Rural Cofinancing Agreements) under terms and conditions satisfactory to the Bank, for the purposes of cofinancing and executing Rural Subprojects.
2. The Borrower, through VMCS and UGP, shall ensure that the relevant OSs, OTS, Work Contractors, District Municipalities and JASSs exercise their respective rights and carry out their respective obligations under each Rural OS Contract, Rural OTS Contract, Work Contractor Contract, Rural Framework Agreement, and Rural Cofinancing Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Project and, except as the Bank shall otherwise agree, the Borrower (through VMCS and UGP) shall ensure that OSs, OTSs, Work Contractors, District Municipalities and JASSs do not assign, terminate, amend, abrogate, waive or fail to enforce any such Contract or Agreement or any provision thereof.
3. The Rural OS Contracts, the Rural OTS Contracts, the Work Contractor Contracts, the Rural Framework Agreements, and the Rural Cofinancing Agreements for the carrying out of Rural Subprojects shall be concluded under terms and conditions described in more detail in the Operational Manual 2010 and shall include the following:
- (a) a copy of the approved Rural Subproject with its budget, its execution timetable, and its performance indicators;
 - (b) the obligation of each of the relevant OSs, OTSs, Work Contractors, District Municipalities and JASSs, as the case may be under each respective Contract or Agreement, to: (i) carry out the activities with due diligence and efficiency and in accordance with sound administrative, financial, engineering, social and environmental standards and in accordance with the provisions of the Operational Manual 2010 and the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower; (ii) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Operational Manual 2010, the operations, resources and expenditures in

respect of the relevant Rural Subproject; (iii) maintain adequate reporting in accordance with the standards specified in the Operational Manual 2010; and (iv) make a minimum contribution to the total investment costs as defined in the Operational Manual 2010;

- (c) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Loan for the Rural Subprojects shall be procured in accordance with the procedures set forth in Section III of this Schedule; and (ii) such goods, works and services shall be used exclusively in the carrying out of activities financed by the relevant Rural Subproject;
 - (d) the right of VMCS to inspect, by itself or jointly with UGP and the Bank, if the Bank shall so request, during the implementation of the Project, the goods, works, sites and constructions included in the activities financed by the Rural Subprojects, the operations thereof and any relevant records and documents;
 - (e) the right of VMCS to obtain all information as VMCS, UGP or the Bank shall reasonably request regarding the administration, operations and financial conditions of the activities financed under the Rural Subprojects; and
 - (f) (i) the right of the VMCS and the UGP to suspend and terminate the right of any OS, OTS, Work Contractor, District Municipality, or JASS to use the amount of proceeds of the respective Contract or Agreement, as the case may be; and (ii) the obligation of any OS, OTS, Work Contractor, JASS, or District Municipality, as the case may be, to refund all or any part of the amount of the proceeds of the respective Contract or Agreement then withdrawn to UGP or VMCS as the case may be, all upon failure by the respective OS, OTS, Work Contractor, JASS, or District Municipality to perform any of their respective obligations under said Contracts and Agreements.
4. In case of any conflict between the terms of said Contracts or Agreements and those of this Agreement, the terms of this Agreement shall prevail.

F. Annual Project Audits

1. The Borrower, through UGP shall:
- (a) no later than March 31 of each year during Project implementation, contract physical audits for the previous year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Bank operating under terms of reference satisfactory to the Bank,

such audits to focus on a sample of Rural Subprojects, so as to review individual Contracts and Agreements, ascertain compliance with their terms and conditions, inspect physical progress of civil works and reconcile it with financial expenses incurred, and verify compliance with the Environmental and Social Management Framework.

- (b) no later than July 31 of each year during Project implementation, furnish to the Bank the report of such audits by said auditors.

G. Annual Implementation Programs and Procurement Plan Annual Updates

- 1. (a) The Borrower, through the UGP shall:
 - (i) furnish to the Bank, on or about November 30 of each year during Project implementation, the updated Annual Implementation Program and the annual update for the Procurement Plan, both satisfactory to the Bank, detailing all activities to be financed under the Project as well as all procurement activities for the Project for the following year; and
 - (ii) review with the Bank by December 31 of each year during Project implementation or such other date as the Bank shall request, the updated Annual Implementation Program and the updated Procurement Plan referred to in subparagraph (i) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Annual Implementation Program and the updated Procurement Plan based on the recommendations set forth in said updated documents and the Bank's views on the matter.
- (b) In case of any conflict between the terms of the updated Annual Implementation Program or the updated Procurement Plan and those of this Agreement, the terms of this Agreement shall prevail.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

- 1. The Borrower, through VMCS and UGP, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through VMCS and UGP, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower, through VMCS and UGP, shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.
4. No later than March 31, 2012 or such other date as the Bank may agree, the Borrower shall contract the auditors for purposes of Section 5.09 (b) of the General Conditions, under terms of reference acceptable to the Bank, including, *inter alia*, that the contract shall be for audits covering the fiscal years of 2011 through 2013.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

4. **Special Provisions.**

- (a) In addition and without limitation or restriction to any other provision set forth in this Section or the Procurement Guidelines, the following provisions shall govern all procurement of goods and works with National Competitive Bidding procedures under Section III. B.2 (a) of this Schedule:
 - (i) Foreign bidders shall not be required to be locally registered as a condition of participation in the selection process.
 - (ii) No reference value shall be required for publication in the bidding documents or used for the purpose of evaluation.
 - (iii) Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
 - (iv) Foreign bidders shall be allowed to participate in National Competitive Bidding without restriction and shall not be subject to any unjustified requirement which will affect their ability to bid such as, but not limited to, the requirement to authenticate their bidding documents or any documentation related to such bidding documents with either Peruvian Consulates, the Ministry of Foreign Affairs, or any Peruvian authorities as a prerequisite of bidding.
 - (v) The Borrower shall utilize standard bidding documents satisfactory to the Bank.

- (b) In addition and without limitation or restriction to any provision set forth in this Section or the Consultant Guidelines, the following provisions shall govern all employment of consultants referred to in Section III.C of this Schedule:
 - (i) Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
 - (ii) Foreign consultants shall not be required to authenticate any documentation related to their participation in the selection process with either Peruvian Consulates, the Ministry of Foreign Affairs, or any Peruvian authorities as a condition of participation in said selection process.

- (iii) The Borrower shall use standard requests for proposals and standard evaluation formats, all satisfactory to the Bank.
- (iv) Foreign consultants, either individuals or firms, shall not be required to pay fees to the Peruvian Consultants' Association that are different from those required for Peruvian consultants.
- (v) No consultant hired for the Project, at the time he or she is carrying out his or her contractual obligations as a consultant, may hold civil service office or any other position in any agency of the Borrower, nor shall such consultant have any right to re-entry into any such office or position upon the conclusion of his or her consulting services.

B. Particular Methods of Procurement of Goods and Works

- 1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
- 2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants' Services

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants' Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Quality-based Selection
(b) Selection under a Fixed Budget
(c) Selection based on Consultants' Qualifications
(d) Least Cost Selection
(e) Single-source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

E. Annual Procurement Audits

1. The Borrower, through the UGP shall:
 - (a) not later than March 31 of each year during Project implementation, contract annual procurement audits for previous year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Bank operating under terms of reference satisfactory to the Bank, and have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles;
 - (b) not later than July 31 of each year during Project implementation, furnish to the Bank the procurement audit report of such audit by said auditors (covering the previous calendar year), of such scope and in such detail as the Bank shall have reasonably requested;
 - (c) furnish to the Bank or to said auditors such other information concerning said procurement records and documentation as the Bank shall from time to time reasonably request; and
 - (d) no later than September 15 of each year during Project implementation, discuss the results of such audits with the Bank and take into account the Bank's comments thereon.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in USD)</u>	<u>Percentage of Expenditures to be financed (inclusive of Taxes)</u>
(1) Goods and works for Community Subprojects as defined in the Original Loan Agreement	--	Not applicable
(2) Works for Small Town Subprojects as defined in the Original Loan Agreement	--	Not applicable
(3) Goods (other than those for Rural Subprojects)	300,000	100% of Foreign Expenditures and 80% of Local Expenditures
(4) Consultants’ services and audits	2,870,000	80%
(5) Fee payable under Section 2.04 of the Original Loan Agreement	--	Not applicable
(6) Goods and works for Rural Subprojects	26,650,000	60%
(7) Training	180,000	80%
TOTAL AMOUNT	30,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or
 - (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$6,000,000 equivalent may be made for payments made prior to this date but on or after July 22, 2010 (but in no case more than one year from the date of this Agreement), for Eligible Expenditures under Categories (3), (4), (6) and (7).
2. The Closing Date is December 31, 2013.

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 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.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On April 15, 2022	70%
On October 15, 2022	30%

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.
5. If the Withdrawn Loan Balance is 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.

APPENDIX

Section I. Definitions

1. “Agreements” means any, some or all of the following: Rural Cofinancing Agreements, and Rural Framework Agreements.
2. “Annual Implementation Program” means any of the programs referred to in Section I.G of Schedule 2 to this Agreement.
3. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, with the modifications set forth in Section II of this Appendix.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Community” or “Communities” means any rural community or communities in the territory of the Borrower that meets the eligibility criteria set forth in the Operational Manual 2010.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006 and May 2010.
7. “Contracts” means any, some or all of the following: Rural OS Contracts, Rural OTS Contracts and Work Contractor Contracts.
8. “Department” means *Departamento*, any of the political subdivisions of the territory of the Borrower established pursuant to the Borrower’s Law No. 26922, dated February 3, 1998.
9. “District Municipality” means *Municipalidad Distrital*, any of the political subdivisions of the territory of the Borrower established pursuant to paragraph 3 of Article 4 of the Borrower’s Municipal Organic Law (No. 27972, dated May 26, 2003).
10. “DNS” means *Dirección Nacional de Saneamiento*, the Borrower’s National Sanitation Directorate within VMCS.

11. “Environmental and Social Management Framework” or “ESMF” means the Borrower’s framework for managing the environmental and social aspects of the Project, as annexed to the Operational Manual 2010, which framework includes provisions necessary to comply with the following Bank’s Operational Policies: 4.01, 4.11, and 4.10, as said policies are published under www.WorldBank.org/opmanual as of the date of this Agreement.
12. “Expanded Project Area” means the area comprised by the Borrower’s Departments of Amazonas, Ancash, Apurimac, Cajamarca, Cusco, Ica, Lambayeque, Loreto, Madre de Dios, Puno, San Martin, and Ucayali, and any other Department which may be acceptable to the Bank in addition to, or in substitution of, the above Departments.
13. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
14. “General Sanitation Services Law” means the Borrower’s Law No. 26338 of July 24, 1994, as amended to the date of this Agreement.
15. “Initial Project Area” means the area comprised by the Borrower’s Departments of Arequipa, Ayacucho, Huancavelica, Huanuco, Junín, Lima, Pasco and Piura.
16. “JASS” means *Junta Administradora de Servicios de Saneamiento*, any community users’ association of water supply and sanitation services operating in the Initial Project Area or in the Expanded Project Area and registered with MVCS by the concerned District Municipality for purposes of the implementation of Rural Subprojects.
17. “MEF” means *Ministerio de Economía y Finanzas*, the Borrower’s Ministry of Economy and Finance.
18. “Municipal Organic Law” means the Borrower’s Law No. 27972, dated May 26, 2003, as amended to the date of this Agreement.
19. “MVCS” means *Ministerio de Vivienda, Construcción y Saneamiento*, the Borrower’s Ministry of Housing, Construction and Sanitation.
20. “NGO” means any non-governmental organization (with legal personality) operating in the territory of the Borrower.
21. “Operational Manual 2010” means the Project operational manual acceptable to the Bank and to be adopted by the Borrower’s Ministry of Housing, Construction and Sanitation through a Ministerial Resolution, referred to in Section I.B of Schedule 2 to this Agreement, including: (i) Project institutional setup, including organization and functions of VMCS, UGP and Project Steering Committee; (ii)

disbursement, accounting, auditing and reporting procedures; (iii) procurement responsibilities, processes and internal controls; (iv) monitoring and evaluation plans for the Project; (v) Rural Subprojects cycle, including pre-investment, investment and post-investment activities; (vi) roles and responsibilities of VMCS, UGP, DNS, District Municipalities, JASSs, OTSs, OSs and Work Contractors; (vii) eligibility and cost-recovery requirements; (viii) the Environmental and Social Management Framework; (ix) models for Contracts and Agreements; and (x) the Performance Indicators.

22. “Original Loan Agreement” means the loan agreement between the Borrower and the Bank for the National Rural Water Supply and Sanitation Project, dated September 13, 2002, as amended and restated on May 5, 2006 and as further amended to the date of this Agreement (Loan No. 7142-PE).
23. “Original Project” means the Project described in Schedule 2 to the Original Loan Agreement.
24. “OS” means *Operador Supervisor*, any Project supervising operator (including NGOs, private firms, or individuals) that is selected by the UGP for the implementation of Rural Subprojects, in accordance with the criteria set forth in the Operational Manual 2010.
25. “OTS” means *Operador Técnico Social*, any technical and social operator, including NGOs and private firms, that is selected by the UGP for the implementation of Rural Subprojects, in accordance with the criteria set forth in the Operational Manual 2010.
26. “Performance Indicators” means the Project performance indicators set forth in the Operational Manual 2010.
27. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.
28. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated October 21, 2010, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
29. “Project Steering Committee” means *Comité de Coordinación del Proyecto*, the highest oversight and advisory body for the Project headed by the Borrower’s Vice-Minister of Construction and Sanitation and comprising representatives from MEF, VMCS and UGP.

30. “Regional Government” means *Gobierno Regional*, any of the political subdivisions of the territory of the Borrower established pursuant to the Borrower’s Regional Governments Organic Law No. 27867, dated November 18, 2002, as amended to the date of this Agreement.
31. “Rural Cofinancing Agreement” means any agreement executed among VMCS, a District Municipality and a JASS for the co-financing and the execution of a Rural Subproject.
32. “Rural Framework Agreement” means any agreement executed between VMCS and a District Municipality for the general carrying out of Rural Subprojects.
33. “Rural OS Contract” means any contracts executed between VMCS, through UGP, and an OS for the supervision of a Rural Subproject.
34. “Rural OTS Contract” means any of the contracts executed between VMCS (through UGP) and an OTS for the carrying out of, *inter alia*, technical assistance, sanitary and hygiene education, feasibility studies, capacity-building activities, social promotion, final designs, acquisition of construction materials, works delivery and liquidation and post-investment technical assistance related to a Rural Subproject.
35. “Rural Subproject” means any investment subproject for the benefit of Communities to be carried out under Parts A.3 and A.4 of the Project.
36. “Training” means the reasonable costs of: (i) training materials and rental of training facilities and equipment; (ii) tuition fees, travel and *per-diem* of trainers and trainees; and (iii) any other expenses related to training (including study tours and workshops) to be carried out under the Project.
37. “UGP” means *Unidad de Gestión del Proyecto*, the Project management unit within the Borrower’s Water For All Program (*Programa Agua Para Todos*) of the VMCS (or any other program of the VMCS satisfactory to the Bank) in charge of the day-to-day management of the Project.
38. “VMCS” means *Viceministerio de Construcción y Saneamiento*, the Borrower’s Vice Ministry of Construction and Sanitation within MVCS.
39. “Work Contractor” means *Contratista para la Obra*, any contractor, including NGOs and private firms that is selected by UGP for the carrying out of Works for Rural Subprojects, in accordance with the criteria set forth in the Operational Manual 2010.

40. “Work Contractor Contract” means any of the contracts executed between VMCS (through UGP) and a Work Contractor for the carrying out of works for a Rural Subproject.

Section II. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”