

CONFORMED COPY

LOAN NUMBER 7950-PE

Loan Agreement

(Third Programmatic Environmental Development Policy Loan)

between

REPUBLIC OF PERÚ

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 14, 2010

LOAN AGREEMENT

Agreement dated September 14, 2010, entered into between REPUBLIC OF PERÚ (“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 seventy five million Dollars (\$75,000,000), 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.
 - (b) The Borrower’s Director of Public Indebtedness, or any person designated in writing, is designated 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 LIBOR 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 (d) of the General Conditions.

- 2.05. The Payment Dates are June 15 and December 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; 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 — 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 Event of Suspension consists 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 adequacy 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 February 6, 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, Perú, as of the day and year first above written.

REPUBLIC OF PERÚ

By /s/ Mercedes R. Araoz Fernandez
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 Taken Under the Program

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

A. Environmental Governance

Strengthening the Institutional and Legal Framework for Biodiversity Conservation and National Protected Areas Management

The Borrower has: (a) adopted a master plan with three action plans (*Plan de Acción para el Fortalecimiento de las Capacidades para Gestionar las Areas Naturales Protegidas*; *Plan de Acción para el Involucramiento y el Empoderamiento de las Poblaciones Locales en la Gestión de las Areas Naturales Protegidas*; *Plan de Acción para el Fortalecimiento de la Base Financiera de la Areas Naturales Protegidas*), all conducive to the financial sustainability of the Borrower's system of natural protected areas (SINANPE), as evidenced through the issuance of SERNANP Presidential Resolution No. 052-2010-SERNANP which enacted such master plan, dated March 24, 2010 and published on the website: www.sernanp.gob.pe; and (b) adopted mechanisms to promote private sector financing and management in favor of four newly established Private Conservation Areas, as evidenced through the Borrower's Ministerial Resolutions No. 072-2010-MINAM; No. 073-2010-MINAM; No. 074-2010-MINAM; and No. 075-2010-MINAM, all dated May 6, 2010 as published in the Borrower's Official Gazette (*El Peruano*) on May 7, 2010.

B. Mainstreaming Principles of Sustainable Development in Key Sectors

1. Mining Sector

The Borrower has developed technical guidelines for the adequate remediation (including maintenance, monitoring and follow-up activities) of Mining Environmental Legacies, as evidenced through the issuance of the Borrower's Directorate Resolution No. 124-2010-MEM/AAM, dated April 15, 2010, as published on the website: www.mem.gob.pe.

2. Urban Transport Sector

The Borrower has: (a) adopted, as a follow-up action to the Borrower's Supreme Decree No. 061-2009-EM, dated September 4, 2009, as published in the Borrower's Official Gazette dated September 5, 2009, an investment plan for the modernization of PETROPERU's refinery in Talara that reduces the sulfur

content of the diesel fuel as evidenced through PETROPERU letter (*Oficio*) No. GAPP-038-2010, dated March 29, 2010; and (b) implemented an effective inspection and maintenance system in Lima and three additional cities through the introduction of an information and communication system in the Borrower's territory, as evidenced through the issuance of the Borrower's Directorate Resolution No. 3041-2009-MTC/15, dated September 23, 2009, as published in the Borrower's Official Gazette (*El Peruano*) on October 25, 2009, and the issuance of the Borrower's Supreme Decree No. 015-2010-MTC, dated March 16, 2010, as published in the Borrower's Official Gazette (*El Peruano*) on March 17, 2010, which requires the mandatory use of filming equipment to ensure proper identification of inspected vehicles.

3. Fisheries Sector

The Borrower has: (a) established *anchoveta* fishing quota allocations for the first fishing season in 2010 for the Borrower's north-central region, as evidenced through the issuance of the Borrower's Ministerial Resolution No. 100-2010-PRODUCE, dated April 16, 2010, as published in the Borrower's Official Gazette (*El Peruano*) on April 18, 2010; and (b) enacted measures required for the monitoring and enforcement of said quota system, as evidenced through the issuance of the Borrower's Supreme Decree No. 002-2010-PRODUCE dated February 24, 2010, as published in the Borrower's Official Gazette (*El Peruano*) on February 25, 2010.

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>	Amount of the Loan Tranche Allocated (expressed in US Dollars)
(1) Single Withdrawal Tranche	75,000,000
TOTAL AMOUNT	75,000,000

- 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.

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.

G. Closing Date. The Closing Date is December 31, 2013.

SCHEDULE 2

Amortization Schedule

The Borrower shall repay the principal amount of the Loan in full on June 15, 2028.

APPENDIX

Section I. Definitions

1. “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.
2. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
 3. “Mining Environmental Legacies” means *Pasivos Ambientales Mineros*, as established and operating under the Borrower’s Law No. 28271, dated July 6, 2004 and the Borrower’s Supreme Decree No. 059-2005-EM, dated December 7, 2005, and published in the Borrower’s Official Gazette (*El Peruano*) on December 18, 2005, as amended to the date of this Agreement.
 4. “PETROPERU” means the Borrower’s public oil company, as established and operating under the Borrower’s Decree-Law No.17753, dated July 24, 1969, and published in the Borrower’s Official Gazette (*El Peruano*) on July 25, 1969, as amended to the date of this Agreement; or its successor or successors thereto.
 5. “Private Conservation Areas” means *Areas de Conservación Privadas*, the Borrower’s private conservation areas, complementary to SINANPE, as established and operating under the Borrower’s Law No. 26834, dated June 30, 1997, and published in the Borrower’s Official Gazette (*El Peruano*) on July 4, 1997, as amended to the date of this Agreement.
 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 June 25, 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. “SERNANP” means *Servicio Nacional de Areas Naturales Protegidas por el Estado*, the Borrower’s national service for natural protected areas, as established and operating under the Borrower’s Legislative Decree No. 1013, dated May 13, 2008, and published in the Borrower’s Official Gazette (*El Peruano*) on May 14, 2008, as amended to the date of this Agreement; or its successor or successors thereto.
8. “SINANPE” means *Sistema Nacional de Areas Naturales Protegidas por el Estado*, the Borrower’s system of natural protected areas, as established and operating under the Borrower’s Law No. 26834, dated June 17, 1997, and published in the Borrower’s Official Gazette (*El Peruano*) on July 4, 1997, as amended to the date of this Agreement; or its successor or successors thereto.
9. “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.

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. Paragraph (a) of Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

“Section 2.05. *Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. 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.
5. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 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.”

7. 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.”

8. 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.”

- (d) The term “Program Preparation Advance” (renamed as such pursuant to subparagraph 8 (c) above) is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Loan Agreement and repayable in accordance with Section 2.05.”