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CONFORMED COPY

LOAN NUMBER 4536-PE

Loan Agreement

(Indigenous and Afro-Peruvian Peoples Development Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION

AND DEVELOPMENT

Dated December 13, 2000

LOAN NUMBER 4536-PE

LOAN AGREEMENT

AGREEMENT, dated December 13, 2000, between REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

(A)

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

(B)

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997), with the modifications set forth below (the General Page 2

Conditions) constitute an integral part of this Agreement:

Paragraph (c) of Section 9.07 of the General Conditions is modified to read as follows:

"(c) Not later than six months before the Closing Date or such

later date as may be agreed for this purpose between the Borrower and the

Bank, the Borrower shall prepare and furnish to

the Bank a report, of such

scope and in such detail as the Bank

shall reasonably request, on the

execution of the Project, its

cost and the benefits derived and to be

derived from it, the

performance by the Borrower and the Bank of their

respective

obligations under the Loan Agreement and the accomplishment of the purposes of the Loan."

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

(a)

"Beneficiary" means a legally recognized Indigenous Peoples (as defined below) community residing in the Project Area (as defined below), a communal or multi-communal enterprise or producer, or other association with predominant membership of Indigenous Peoples, which is selected pursuant to the criteria set forth

in the Operational Manual (as defined below);

(b)

“Beneficiary Grant Agreement” means any of the agreements referred to in Section 3.01 (b) (ii) of this Agreement;

(c)

“Community Subproject” means a productive, traditional medicine, ethno and eco-tourism, natural resource management, social services, and/or training project to be carried out by a Beneficiary which is eligible for financing by the Financing Agency (as defined below), in accordance with the criteria set forth in the Operational Manual;

(d)

“Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e)

“Eligible Expenditures” means the expenditures for goods and services referred to in Section 2.02 of this Agreement;

(f)

“El Peruano” means the Borrower’s official gazette;

(g)

“Financing Agencies” means: (i) a decentralized public agency of PROMUDEH (as defined below); and (ii) any other financial agency acceptable to the Bank which is selected by the Borrower to provide financing for Community Subprojects;

(h)

“Indigenous Peoples” means any indigenous peoples residing in zones 1, 3, 4 and 5 of the Project Area and Afro-Peruvian peoples residing in Zone 2 of the Project Area;

(i)

“Multisectoral Commission of Indigenous Affairs” means the commission established pursuant to Supreme Decree No. 12-98 published in El Peruano on November 6, 1998;

(j)

“Operational Manual” means the manual for the operation of the Project referred to in Section 3.05 of this Agreement;

(k)

“Performance Indicators” means the indicators set forth in the letter dated November 2, 1999 from the Borrower to the Bank;

(l)

“Project Area” means the areas described in the Annex to Schedule 2 to

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this Agreement and any other area acceptable to the Bank which is selected by the Borrower;

(m)

“Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(n)

“PROMUDEH” means Ministerio de Promoción de la Mujer y del Desarrollo Humano, the Borrower’s Ministry of Women and Human Development;

(o)

“Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(p)

“Subproject Financing Agreement” means any of the agreements referred to in Section 3.01 (b) (i) of this Agreement;

(q)

“Technical Secretariat of PROMUDEH” means Secretaría Técnica de Asuntos Indígenas,

the technical secretariat for indigenous peoples established within PROMUDEH pursuant to Supreme Decree No. 12-98 published in El Peruano on November 6, 1998; and

(r)

"TG Unit" means the unit referred to in Section 3.03 of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to five million Dollars (\$5,000,000).

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b)

For the purposes of this Section:

(i)

"Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an

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Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii)

"Interest Payment Date" means any date specified in Section 2.07 of this Agreement.

(iii)

"LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest

Period (or, in the case of the initial

Interest Period, for value

the Interest Payment Date

occurring on or next preceding the first day of such

Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv)

“LIBOR Total Spread” means, for each Interest Period:

(A) three-fourths of one percent (3/4 of 1%); (B)

minus

(or plus) the weighted average margin, for such

Interest Period,

below (or above) the London

interbank offered rates,

or other reference rates,

for six-month deposits, in respect of

the Bank’s

outstanding borrowings or portions thereof allocated

by the Bank to fund single currency loans or portions

thereof made by it that include the Loan; as

reasonably determined by the Bank and expressed as a

percentage

per annum.

(c)

The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total

Spread for each Interest Period, promptly upon the determination thereof.

(d)

Whenever, in light of changes in market practice affecting the

determination of the interest rates referred to in this Section 2.06, the Bank

determines that it is in the interest of its borrowers as a whole and of the Bank to

apply a basis for determining the interest rates applicable to the Loan other than as

provided in said Section, the Bank may modify the basis for determining the interest

rates applicable to the Loan upon not less than six (6) months’ notice to the Borrower

of the new basis. The new basis shall become effective on the expiry of the notice

period unless the Borrower notifies the Bank during said period of its objection

thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually in

arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in

accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the

Project, and, to this end, shall carry out the Project, through the Technical

Secretariat of PROMUDEH, and with the overall policy guidance of the Multisectoral

Commission of Indigenous Affairs, with due diligence and efficiency and in conformity

with appropriate administrative, economic, financial, social and environmental

practices, and shall provide, promptly as needed, the funds, facilities, services and

other resources required for the Project.

(b)

The Borrower shall, in the carrying out of Part E.2 of the Project:

(i)

enter into an agreement with each Financing Agency,

under terms and conditions satisfactory to the Bank

(the

Subproject Financing Agreement) such agreement

to provide

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for the undertaking by the Financing

Agency to, in coordination

with the Technical

Secretariat of PROMUDEH, select,

finance, monitor and supervise Community Subprojects in accordance with the Operational Manual; and

(ii) cause each Financing Agency to enter into agreements, with each Beneficiary, under terms and conditions substantially similar to those of the model form contained in the Operational Manual (the Beneficiary Grant Agreements), such agreements to provide for:

(A) the transfer by the Financing Agency to such Beneficiary, on a grant basis, of the funds required by such Beneficiary to carry out a Community Subproject; and

(B) the obligation of such Beneficiary to carry out such Community Subproject as provided in the Operational Manual.

(c) The Borrower shall exercise its rights under the Subproject Financing Agreements and shall cause the Financing Agencies to exercise their rights under the Beneficiary Grant Agreements in such manner as to protect the interests of the Borrower, the Bank and the Financing Agencies and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce any Subproject Financing Agreement, Beneficiary Grant Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Borrower shall establish and thereafter maintain, during the execution of the Project, a Project unit in charge of Project coordination (the TG Unit), with structure and functions satisfactory to the Bank, with qualified staff in adequate numbers as required to carry out the unit's responsibilities.

Section 3.04. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about July 31 and January 31 each year, commencing July 31, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Bank by March 31 each year, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section; and

(d)

thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said reviews and the Bank's views on the matter.

Section 3.05. The Borrower shall carry out the Project in accordance with an operational manual satisfactory to the Bank (the Operational Manual), said manual to Page 6

include, inter alia:

(a)

the procedures for the carrying out, monitoring and evaluation of the Project including the role of the Multisectoral Commission of Indigenous Affairs and the technical working group referred to in Section 5.01 (d) of this Agreement;

(b)

the criteria for the selection of Beneficiaries and Community Subprojects;

(c)

procedures for the implementation and financing by the Financing Agencies of Community Subprojects; and

(d)

model forms for the Subproject Financing Agreements and the Beneficiary Grant Agreements.

Section 3.06. The Borrower shall, by no later than: (a) December 31, 2001, furnish to the Bank for its comments a draft bill setting forth a comprehensive legislative framework for the development of Indigenous Peoples; and (b) July 31, 2002, submit to its Congress such draft bill revised, if needed, to take into account the Bank's comments thereon.

Section 3.07. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall:

(a)

prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b)

afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

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

(b)

The Borrower shall:

(i)

have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year

audited, in accordance with auditing standards acceptable to

the Bank, consistently

applied, by independent auditors

acceptable to the

Bank;

(ii)

furnish to the Bank as soon as available, but in any

case not later than six months after the end of each such

year: (A) certified copies of the financial statements referred

to in paragraph (a) of this Section for such year as so

audited; and (B) an

opinion on such statements, records and accounts and

report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii)

furnish to the Bank such other information concerning Page 7

such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may from time to time

reasonably request.

(c)

For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

(i)

maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii)

retain, until at least one year after the Bank has received the audit report for the fiscal year in which

the last withdrawal from the Loan Account was made, all records

(contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii)

enable the Bank's representatives to examine such records; and

(iv)

ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate

opinion by said auditors as to whether the Project Management

Reports or statements of expenditure submitted during such fiscal year,

together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Bank for the strengthening of the financial management system referred to in paragraph

(a) of said Section 4.01 in order to enable the Borrower, not later than eighteen months from the Effective Date, or such later date as the Bank shall agree, to prepare quarterly Project management reports, acceptable to the Bank, each of which:

(i)

(A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and (B) shows separately expenditures financed out of the proceeds of the Loan during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Loan during the six-month period following the period covered by said report;

(ii)

(A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b)

Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

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

(a)

the Borrower shall have adopted the Operational Manual;

(b)

the Borrower shall have established a financial management system satisfactory to the Bank;

(c)

a general coordinator with qualifications and experience satisfactory to the Bank shall have been employed for the TG Unit; and

(d)

the Multisectoral Commission of Indigenous Affairs shall have established a technical working group with representatives of Indigenous Peoples organizations to assist in the provision of the policy guidance referred to in Section 3.01 (a) of this

Agreement.

Section 5.02. The date March 13, 2001 is hereby specified for purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Economy and Finance

Jirón Junín 319

Lima 1

Perú

For the Bank:

International Bank for

Reconstruction and Development

1818 H Street, N.W.

Washington, D.C. 20433

United States of America

Cable address:

Telex:

INTBAFRAD

248423 (MCI) or

Washington, D.C.

64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Page 9

Lima, Perú as of the day and year first above written.

REPUBLIC OF PERU

By /s/ Javier Silva Ruete

Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ Isabel Guerrero

Regional Vice President

Latin America and Caribbean

HONORARY WITNESS

By /s/ Susana Villaran

Minister of Women Promotion and Human Development

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A.

General

1.

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

Amount of the

% of

Loan Allocated

Expenditures

Category

(Expressed in Dollars)

to be Financed
 (1)
 Goods
 40,000
 80%
 (2)
 Consultants' ser-
 3,500,000
 90%
 vices and training
 for all Parts of
 the Project (other than
 Part E thereof)
 (3)
 Consultants' ser-
 850,000
 100%
 vices for Part E.1
 of the Project
 (4)
 Incremental Operating 320,000
 90%
 Expenditures
 (5)
 Fee
 50,000
 Amount due under
 Section 2.04 of this
 Agreement
 (6)
 Unallocated
 240,000
 TOTAL
 5,000,000

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2.

For the purposes of this Schedule the term "Incremental Operating Expenditures" means the cost of office supplies and materials, space leasing, fuel, utilities, communications, travel and other costs related to the implementation of the Project.

3.

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

(a)

expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding \$500,000, may be made on account of payments made for expenditures before that date but after April 30, 1999;

(b)

expenditures under Part E.2 of the Project; and

(c)

expenditures under Part E.1 of the Project unless at least three Subproject Financing Agreements have been entered into.

4.

The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) goods; (b) consulting services in respect of which prior review is not required in accordance with the provisions of Part D.2 of Section II of Schedule 4 to this Agreement; and (c) training and

Incremental Operating Expenditures, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

B.

Special Account

1.

The Borrower shall open and maintain in dollars a special deposit account in a commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2.

After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a)

until the Bank shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b)

upon receipt by the Bank of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3.

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

4.

Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a)

if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b)

if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c)

if the Borrower shall have failed to furnish to the Bank within the
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period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5.

The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6.

(a)

If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b)

If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c)

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

(d)

Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1.

For the purposes of this Annex:

(a)

the term "Authorized Allocation" means an amount of \$500,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount of \$250,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$600,000.

2.

Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a)

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

(b)

For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for

Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3.

The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1.

Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2.

Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a Project Management Report.

3.

Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed \$1,000,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen the capacity of Indigenous Peoples communities and organizations to design and implement Community Subprojects, better articulate their development proposals and effectively utilize services offered by the Borrower and the civil society.

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

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Part A:

Institutional Strengthening of the Multisectoral Commission of Indigenous Affairs and the Technical Secretariat of PROMUDEH

Strengthening the normative and operational capacity of the Multisectoral Commission of Indigenous Affairs and the Technical Secretariat of PROMUDEH to deal with Indigenous Peoples issues through the provision of the technical assistance, training and equipment required therefor.

Part B:

Institutional Strengthening of Indigenous Peoples Organizations and Communities

Strengthening the organizational, technical and business capacity of Indigenous Peoples communities and organizations through the provision of technical assistance, training and equipment as required to improve:

1. their capabilities for participatory planning, implementation and maintenance of Community Subprojects;
2. their capabilities for financial management and administration;
3. the promotion and recovery of their cultural patrimony; and
4. their legal, technical and institutional capabilities.

Part C:

Legal Reform and Technical Assistance

Preparation of a comprehensive legislative framework for Indigenous Peoples, including carrying out of consultation workshops with relevant stakeholders.

Part D:

Information and Awareness Campaign

1. Provision of training to the Borrower's agencies at the central and local level, and civil society representatives, on indigenous culture, rights, concerns and proposals.
2. Carrying out of education, information and communication campaigns to raise awareness on the concerns of Indigenous Peoples.

Part E:

Subprojects

1. Provision of technical assistance to Beneficiaries for the preparation of Community Subprojects in the Project Area.
2. Financing by the Financing Agencies, and implementation, of Community Subprojects in the Project Area.

Part F:

Monitoring and Evaluation

Monitoring and evaluation of the Project, including assessments of the impact of the Project on the Indigenous Peoples organizations and communities participating in, or benefiting from, such Project.

* * *

The Project is expected to be completed by June 30, 2002.

Annex to Schedule 2

Project Area

Zone 1:

WARI

Department

Province

Huancavelica

Tayacaja

Ayacucho

La Mar

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Huamanga

Zone 2:

COASTAL

Chincha

Ica
Zone 3:
QUECHUA-AYMARA
Department
Province
Puno
Chucuito
Cuzco
Chumbivilcas

Zone 4:
MARAÑÓN
Department
Province
Amazonas
Bagua
Condorcanqui
Loreto Alto Amazonas
San Martín

Lamas
Zone 5:
UCAYALI
Department
Province
Junín
Chanchamayo
Satipo
Ucayali
Coronel Portillo
Atalaya

SCHEDULE 3
Amortization Schedule
Payment of Principal
(Expressed in
Date Payment Due
Dollars)*
On each January 15 and July 15
beginning July 15, 2005
210,000
through July 15, 2016
On January 15, 2017
170,000
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*

The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

SCHEDULE 4
Procurement
Section I.
Procurement of Goods
Part A:
General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999

(the Guidelines) and the following provisions of Section I of this Schedule.

Part B:

Procurement Procedures

Shopping

Goods shall be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Section II.

Employment of Consultants

Part A:

General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Sections II and III of this Schedule.

Part B:

Quality- and Cost-based Selection

1.

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to Page 16

quality- and cost-based selection of consultants.

2.

The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C:

Other Selection Methods

1.

Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2.

Single Source Selection

Consultants' services for tasks for which a unique knowledge of the region is required and which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3.

Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D:

Review by the Bank of the Selection of Consultants

1.

Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for

its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2.

Prior Review

(a)

With respect to each contract estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b)

With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3.

Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply, provided, however, that the terms of reference for the respective assignments

Page 17 shall be subject to the Bank's prior review and approval.

Section III. Special Provisions

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

1.

Foreign consultant shall not be required to be locally registered as a condition of participation in the selection process.

2.

Reference value shall not be required to be published in the proposal documents.

3.

No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.

4.

Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participating in the selection process.