

CONFORMED VERSION

LOAN NUMBER 7219-PE

Loan Agreement

(Justice Services Improvement Project)

between

REPUBLIC OF PERU

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 30, 2004

LOAN NUMBER 7219-PE

LOAN AGREEMENT

AGREEMENT, dated November 30, 2004 between the REPUBLIC OF PERU (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project pursuant to the provisions of the document (*Oficio* N° 2014-2003-EF/68.01) dated December 3, 2003 issued by the Borrower's Ministry of Finance (*Dirección General de Programación Multianual del Sector Público*) confirming the Borrower's approval of the Project's feasibility ("*Estudio de Factibilidad del Proyecto de Mejoramiento de los Servicios de Justicia*") in accordance with the Borrower's public investment directives (*Directiva* No.004-2002/EF 68.01 –*Directivas Generales del Sistema de Inversión Pública*);

WHEREAS (B) the Borrower has established a special commission for the reform of its justice sector (*Comisión Nacional para la Reforma Integral de la Administración de Justicia-CERIAJUS*) pursuant to the provisions of the Borrower's Law No. 28083 dated October 3, 2003, and published in the Borrower's Official Gazette dated October 4, 2003;

WHEREAS (C) the Bank has received from the Borrower's Judiciary a letter dated May 30, 2003 (*Oficio* No. 025-2003-JCVH-JGTA/P-PJ) describing the plan for the strengthening of the Peruvian judicial sector (the Justice Sector Plan); and

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

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 Fixed-Spread Loans” of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

(a) “*Acuerdo Nacional*” means the policy program issued by the Borrower’s Executive Branch in collaboration with other branches of government and the Peruvian civil society dated July 22, 2002, and for the purposes of this Project, this term refers to the Borrower’s strategies for the strengthening of its judicial sector, as set forth in the chapter “*Vigésimo Octava Política de Estado*” of *Acuerdo Nacional*, as further detailed in Resolution No. 191-2003-P-PJ issued by the Judiciary (as hereinafter defined), approving the Borrower’s “*Acuerdo Nacional por la Justicia*”, dated October 22, 2003 and published in the Borrower’s Official Gazette dated October 23, 2003;

(b) “AMAG” means *Academia de la Magistratura*, the Borrower’s judicial academy established and operating pursuant to the provisions of Article 151 of the Borrower’s Constitution and AMAG’s Organic Law (as hereinafter defined), and any successor or successors thereto;

(c) “AMAG’s Organic Law” means *Ley Orgánica de la Academia de la Magistratura* (Law No. 26335) dated July 20, 1994, published in the Borrower’s Official Gazette dated July 21, 1994, as amended from time to time to the date of this Agreement;

(d) “AOP” means any of the annual operating plans referred to in Part B.2 (a) of Schedule 5 to this Agreement;

(e) “CDP” means *Comité Directivo del Proyecto*, the national steering committee to be established as set forth in Part A.1 (a) of Schedule 5 to this Agreement;

(f) “CNM” means *Consejo Nacional de la Magistratura*, the Borrower’s judicial council established and operating pursuant to the provisions of Article 150 of the Borrower’s Constitution and the provisions of CNM’s Organic Law (as hereinafter defined), and any successor or successors thereto;

(g) “CNM’s Organic Law” means *Ley Orgánica del CNM* (Law No. 26397) dated December 6, 1994, and published in the Borrower’s Official Gazette dated December 6, 1994, as amended from time to time to the date of this Agreement;

(h) “Constitution” means *Constitución Política del Perú*, the Borrower’s Constitution dated October 31, 1993, as amended to the date of this Agreement;

(i) “Fiscal Year” means the Borrower’s Fiscal Year which runs from January 1 to December 31;

(j) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;

(k) “GG” means *Gerencia General*, the general administration office of the Judiciary (as hereinafter defined), responsible for the management, coordination and supervision of the administrative functions of the Judiciary, pursuant to the provisions of Article 83 of the Organic Law (as hereinafter defined), and its related regulations (*Reglamento de Organización y Funciones de la Gerencia General*) dated December 5, 2001;

(l) “Implementation Letter” means the letter of even date herewith, from the Borrower to the Bank, containing: (i) the Monitoring Indicators (as hereinafter defined); and (ii) the financial management action plan referred to in Section 3.05 of this Agreement;

(m) “Judiciary” means *Poder Judicial*, the Borrower’s judicial branch of government responsible for administering and delivering judicial services in the Borrower’s territory, pursuant to the provisions of Chapter VIII of the Borrower’s Constitution, and the provisions of the Organic Law (as hereinafter defined);

(n) “MEF” means *Ministerio de Economía y Finanzas*, the Borrower’s Ministry of Economy and Finance, and any successor or successors thereto;

(o) “MINJUS” means *Ministerio de Justicia*, the Borrower’s Ministry of Justice, and any successor or successors thereto;

(p) “Monitoring Indicators” means the indicators to be used in monitoring and evaluating the implementation of the Project, as set forth in Annex A to the Implementation Letter;

(q) “Operational Manual” means the manual referred to in Part B.1 of Schedule 5 to this Agreement;

(r) “Organic Law” means *Texto Unico Ordenado de la Ley Orgánica del Poder Judicial*, the Borrower’s Supreme Decree N° 017-93-JUS dated May 28, 1993 published in the Borrower’s Official Gazette on June 2, 1993, setting forth the organization, roles and responsibilities of the Judiciary, as amended to the date of this Agreement;

(s) “Participating Institution” means any of the institutions within the Borrower’s judicial sector, including AMAG, CNM, the Judiciary, and MINJUS, approved by the Bank for participation under the Project;

(t) “PCU” means the project coordination unit to be established as set forth in Part A.2 of Schedule 5 to this Agreement;

(u) “Performance Agreement” means *Acuerdo de Desempeño* any of the agreements referred to in Section 3.02 (a) (ii) of this Agreement, and such term includes all schedules and agreements supplemental to the Performance Agreement;

(v) “Project District” means any of the Borrower’s judicial districts of Cono Norte, Cuzco, Junín and Lima, and any other district proposed by the Judiciary (during the implementation of the Project) and approved by the Bank to participate in the Project, pursuant to eligibility criteria detailed in the Operational Manual;

(w) “SCJ” means *Corte Suprema de Justicia de la República*, the Borrower’s highest ranking court established and operating pursuant to the provisions Article 143 of the Borrower’s Constitution and Chapter II of the Organic Law, and any of its successor or successors thereto;

(x) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(y) “Subsidiary Agreement” means *Acuerdo Subsidiario* the agreement referred to in Section 3.02 (a) (i) of this Agreement, and such term includes all schedules and agreements supplemental to the Subsidiary 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 this Agreement, an amount equal to twelve million Dollars (\$12,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Loan, and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) Upon receipt of notification from the Bank allowing the establishment of the Special Account, the Borrower, through the PCU, may open and maintain in Dollars a separate special deposit account in *Banco de la Nación*, for the purposes of the Project. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008 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 such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one percent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at

the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment 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 provisions of Schedule 3 to this Agreement.

Section 2.09. (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 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 said 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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The Director General of Public Credit of MEF, and any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out: (i) through the Participating Institutions, Parts A (except for Part A.3), B, C and D of the Project; and (ii) through the Judiciary, in close coordination with the Project Districts, Part A.3 of the Project, all with due diligence and efficiency, and in conformity with appropriate administrative, managerial, technical, architectural, environmental, financial, auditing and participatory practices, and provide, or cause the Participating Institutions and the Project Districts to provide, in a timely manner, and as needed, the funds, facilities, services and other resources required for the Project, all with due regard to institutional responsibilities detailed in the AMAG's Organic Law, the CNM's Organic Law and the Organic Law and the principles governing the Borrower's plan for the strengthening of its justice sector pursuant to the provisions of *Acuerdo Nacional* and as set forth in the Justice Sector Plan.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower, through the Participating Institutions and the Project Districts, shall carry out the Project, in accordance with the terms of the Operational Manual and the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

- (i) through MEF, enter into an agreement (the Subsidiary Agreement) with the Participating Institutions detailing the Project activities to be carried out by each Participating Institution pursuant to terms and conditions which shall have been approved by the Bank; and
- (ii) pursuant to the provisions of the agreement referred to in subparagraph (i) of this Section, cause GG to enter into an agreement (the Performance Agreement) with each one of the Project Districts (prior to the carrying out of any of the activities

under Part A.3 of the Project), pursuant to the model contractual provisions set forth in the Operational Manual.

(b) Except as the Bank may otherwise agree, the Borrower: (i) shall exercise its rights and comply with its obligations under the agreements referred to in paragraph (a) of this Section, in such manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project; (ii) shall not amend, assign, waive, terminate or fail to enforce any provision of the agreements referred to in paragraph (a) of this Section; and (iii) shall cause each Participating Institution and each Project District to exercise its respective rights, and comply with its respective obligations under the Subsidiary Agreement and each Performance Agreements, in such manner as to protect the interests of the Borrower and the Bank, and to accomplish the purposes of the Project. The Borrower shall promptly inform the Bank of any condition which interferes or threatens to interfere with the performance of the Borrower, the Participating Institutions or the Project Districts, or any of their respective obligations under such agreements or any provision thereof.

(c) In case of any conflict between the terms of the agreements referred to in paragraph (a) of this Section, and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the works, 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 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through the PCU, shall:

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

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

Section 3.05. The Borrower, through the PCU, shall ensure the due and timely completion of all actions provided for in the financial management action plan reflected in Annex B to the Implementation Letter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the PCU, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through the PCU, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section, including for each Fiscal Year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank 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 (or such other period agreed to by the Bank): (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, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, 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 statements of expenditure, the Borrower, through the PCU, shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and

- (iii) ensure that such statements of expenditure are included in the audit for each Fiscal Year or other period agreed to by the Bank, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Part C of Schedule 5 to this Agreement, the Borrower, through the PCU, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

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

- (a) the AMAG's Organic Law, the CNM's Organic Law, the Organic Law or any provision thereof shall have been amended, suspended, abrogated, repealed or waived or not enforced in such manner so as to affect materially and adversely, in the

opinion of the Bank, the ability of the Borrower or any of the Participating Institutions or the Project Districts to carry out any of their obligations under this Agreement;

(b) the Borrower or any authority having jurisdiction shall have taken any action concerning the Participating Institutions that would materially affect, in the opinion of the Bank, the ability of the Borrower or any of the Participating Institutions or the Project Districts to carry out any of their respective obligations under this Agreement;

(c) an extraordinary situation shall have arisen which shall make it improbable that the Borrower or any of the Participating Institutions or the Project Districts will be able to carry out any of their respective obligations under the Subsidiary Agreement; and

(d) an extraordinary situation shall have arisen which shall make it improbable that any of the Participating Institutions will be able to carry out the Justice Sector Plan referred to in WHEREAS (C) above.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraph (a) of Section 5.01 of this Agreement shall occur; and

(b) any of the events specified in paragraphs (b) or (c) of Section 5.01 of this Agreement shall occur and continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Agreement shall have been executed on behalf of the Borrower and the Participating Institutions;

(b) the Operational Manual shall have been issued by the GG and approved by the Bank;

(c) the PCU shall have been established and the key personnel referred to in Part A.2 (b) (i) of Schedule 5 shall have been hired and begun work;

(d) the financial management system referred to in Section 4.01 (a) of this Agreement, including the features thereof set forth in the financial management action plan, referred to in Section 3.05 of this Agreement, satisfactory to the Bank, shall have been established and become operational; and

(e) the CDP shall have been duly established and become operational with adequate membership and functions pursuant to the provisions of Part A.1 of Schedule 5 to this Agreement.

Section 6.02. The following is specified as an additional matter within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the Subsidiary Agreement has been duly authorized or ratified by, and executed and delivered, on behalf of the Borrower and the Participating Institutions, and the Subsidiary Agreement is legally binding on the Borrower and the Participating Institutions in accordance with its terms.

Section 6.03. The date February 28, 2005, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10 of this Agreement, the Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Economy and Finance
Jr. Junín 319
Lima, Perú
Facsimile: (511) 426-8500

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America as of the day and year first above written.

REPUBLIC OF PERU

By/s/ Eduardo Ferrero Costa
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By/s/ Marcelo M. Giugale
Acting Regional Vice President
Latin America and the Caribbean

Witnessed by/s/ Hugo Sivina Hurtado
President of the Supreme Court
and the Judiciary

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (expressed in US Dollars)</u>	<u>% of Expenditures To be Financed</u>
(1) Works	540,000	80%
(2) Goods	2,460,000	80%
(3) Consultants' Services (including audits)	7,390,000	80%
(4) Training	1,100,000	80%
(5) Operating Costs	390,000	80%
(6) Front-end Fee	120,000	Amount due under Section 2.04 of this Agreement
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>12,000,000</u> =====	

2. For the purposes of this Schedule:

(a) the term "Training" means reasonable expenditures (other than for consultants' services) incurred for: (i) training materials; (ii) rental of training facilities and other expenditures related to organization of training events; (iii) transportation expenses of trainees; and (iv) subsistence expenses for trainees;

(b) the term " Operating Costs" means reasonable expenditures incurred for: (i) transportation and communication services; (ii) office rental and maintenance; (iii) office materials and supplies; (iv) printing and document reproduction services; and (v) other expenditures related to organizational meetings of the PCU (none of which would have been incurred absent the Project) for the implementation and supervision of the Project; and

(c) the term "Works" means expenditures incurred for: (i) minor civil works required for the refurbishing of existing court infrastructure and buildings and the improvement of facilities referred to under Part C.2 (a) (v) of the Project, all procured in accordance with contracts awarded pursuant to the provisions of Section I Part C.3 of Schedule 4 to this Agreement; and (ii) civil works for the rehabilitation of physical infrastructure required to install communications technology systems within existing buildings owned by any of the Participating Institutions or any of the Project Districts, procured in accordance with contracts awarded pursuant to the provisions of Section I Part B or Part C.1 of Schedule 4 to this Agreement.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the amount of \$1,200,000 may be made on account of payments made for expenditures incurred after December 2, 2003 under Categories (2), (3), (4) and (5) set forth in the table in paragraph 1 of this Schedule.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) contracts for works costing less than \$350,000 equivalent; (b) contracts for goods costing less than \$350,000; (c) consultants' services under consulting contracts with individuals costing less than \$100,000 equivalent; (d) consultants' services under consulting contracts with firms costing less than \$250,000 equivalent; (e) training; and (f) operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in establishing the foundations for a long-term, sustainable and participatory reform process for its justice sector, by strengthening the institutional capacity of the Participating Institutions, improving the quality of judicial services delivered by the Judiciary, including the Project Districts, and promoting an equitable access to justice for the Peruvian poor.

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

Part A: Improvement of Justice Services Delivery

1. Strengthening of the strategic planning and management capabilities of the Judiciary, through:

(a) the carrying out of a review of the Judiciary's internal policies and procedures aimed at identifying the areas proposed for internal reorganization, redefinition and redistribution of functions and responsibilities;

(b) the design and implementation of: (i) strategic plans for the improvement of judicial services delivery by the Judiciary, including the Project Districts; and (ii) effective monitoring and control systems (with manual and computerized modules) for the follow-up of the strategic plans of the Project Districts;

(c) the consolidation of the current information systems into a single management system through the reassessment of the management information needs of the Judiciary, and the design and implementation of the following systems: (i) integrated financial management information system consistent with SIAF (*Sistema Integrado de Administración Financiera*) and the new system and processes adopted by the Judiciary; and (ii) a comprehensive management information system, including non-financial information relevant for administrative and jurisdictional purposes; and

(d) (i) the design of a judicial statistics system (with manual and computerized modules) compatible with the Judiciary's existing case tracking system; and (ii) the implementation of a national information system that consolidates and harmonizes relevant information from the judicial statistics system (*Mapa Judicial*), the integrated management information system, and the databases of other institutions within the judicial sector.

2. Modernization of court administration, through:

(a) Decentralization of court administration, through the provision of support to the central offices of the Judiciary and the administrative units of the Project Districts, including: (i) the deconcentration of functions and responsibilities; and (ii) the adoption of a basic court administration model taking into account institutional models, local needs and jurisdictional requirements;

(b) the modernization of the logistics and general services functions of the Judiciary, in close coordination between the central offices of the Judiciary (including GG) and the administrative units of the Project Districts, through the provision of support for the carrying out of the following activities: (i) modernization of the processes associated with the provision of critical office supplies and services for the day-to-day operations of the courts; and (ii) redefinition of the role and responsibilities of the Judge-President and the court administrator in each judicial district;

(c) the provision of technical assistance for: (i) the preparation of a five-year strategic technological resource plan; (ii) the development of new technological standards for the Judiciary; and (iii) the establishment of information generation and dissemination policies for the Judiciary; and

(d) the development and operation of a computerized inventory of jurisprudence, through the periodic compilation, classification and dissemination of landmark court decisions, the development of standard criteria for the categorization and referencing of jurisprudence (*Thesaurus*), and user-friendly consultation tools.

3. Improving the quality of court operations, through:

(a) the carrying out of participatory assessments of court users aimed at restructuring the policies and procedures for the delivery of judicial services by the Judiciary, including the Project Districts;

(b) the development of, *inter alia*: (i) uniform procedures for document distribution (*Central General de Distribución*) within each Project District; (ii) a modern system for case status reporting accessible to court users; (iii) policies and procedures of the central archives in the Project Districts, and cost-effective reform proposals; (iv) models for the scheduling of hearings and court proceedings; (v) case tracking systems in the Project Districts; (vi) a system for the updating, screening and early archiving of inactive files; and (vii) notification systems in the Project Districts; and

(c) the improvement of court infrastructure in the Project Districts, through: (i) the provision of small civil works for the design and implementation of a model court

layout based on available courtroom facilities, new judicial services provided by the courts and customer services' best practices; and (ii) the provision of information technology systems and equipment for the standardization and renewal of the support systems developed under the Project.

Part B: Judicial Human Resource Professional Development

1. Strengthening of the institutional capabilities of CNM to improve the process for the selection and evaluation of judges, in close coordination with the Judiciary and AMAG, through:

(a) the carrying out of a participatory process to develop and validate job profiles for civil, labor, family and mixed jurisdictions' judges assigned to peace, specialized and superior courts;

(b) the development and adoption of recruitment processes and instruments adequate to determine the suitability of a candidate to meet the job profile of a judge position vacancy;

(c) the selection of functional, educational, cultural, ethical and psychological indicators to periodically validate each job profile and evaluate the performance of candidates; and

(d) the design and implementation of a system to evaluate the judges' performance in accordance with the relevant job profile, the identification of post-selection training programs for newly appointed judges and the adjustment of selection criteria.

2. The strengthening of the institutional capabilities of AMAG to design and implement new integrated judicial training programs, in close coordination with the Judiciary and CNM, including:

(a) the carrying out of a participatory assessment of the current training policies and procedures and the identification of short- and medium-term training needs;

(b) the development of an integrated curriculum;

(c) the implementation of innovative training methodologies;

(d) the adoption of an impact- evaluation system; and

(e) the development of mechanisms aimed at promoting the participation of eligible public and private universities and higher education institutions in the provision of training services and application of modern training methodologies and materials.

3. The strengthening of the Judiciary's institutional capabilities to develop an integrated human resource strategy, through:

(a) the development of an integrated human resource management system;

(b) the design of a human resource information system, through the integration of all existing databases into a single database; and

(c) the modernization of the human resource management systems applicable to the administrative and auxiliary court personnel assigned to central and decentralized human resource units within the Judiciary, including the carrying out of training programs for such personnel.

Part C: Enhancement of Access to Justice

1. Development and implementation of an anticorruption strategy for the Judiciary, through:

(a) the strengthening of the disciplinary capacity of the Judiciary, including the development and application of investigative tools, and the provision of anticorruption training for justice sector personnel;

(b) the development of inter-institutional coordination mechanisms among Participating Institutions for the adoption of a joint strategy to prevent and sanction administrative corruption;

(c) the development of mechanisms to oversee the functioning of judicial institutions, through partnerships with the Peruvian civil society; and

(d) the development and implementation of a Code of Ethics for judicial personnel.

2. Promoting an equitable delivery of justice services for the poor, through:

(a) the strengthening of the technical, strategic planning and regulatory capabilities of MINJUS to provide accessible legal aid, conciliation and public defense

services to the poor, including, *inter alia*: (i) the carrying out of a study on a fee system, taking into account social, financial and equity considerations, including the socio-economic profiles of users of legal aid and public defense services; (ii) the creation of a network of public and private legal aid and conciliation services providers; (iii) the design and delivery of training programs for legal aid, conciliation and public defense providers; (iv) the development of a basic statistical system to monitor performance of legal aid, conciliation and public defense lawyers and respond to user demand patterns; (v) the improvement of facilities for legal aid, conciliation and public defense services; and (vi) the carrying out of an evaluation of the feasibility of new and innovative approaches to legal aid and conciliation service delivery, such as indigenous language interpretation programs;

(b) the provision of support to MINJUS to prepare policy recommendations aimed at improving current alternative methods for conflict resolution (ADR), or proposing new alternatives including: (i) the strengthening of the institutional capacity of the technical secretariat for conciliation (*Secretaría Técnica de Conciliación*); (ii) the development of information systems compatible with the Judiciary's databases; (iii) the carrying out of quantitative and qualitative analysis of cases involving the application of the Borrower's conciliation law (*Ley de Conciliación*) to determine case and user profiles; (iv) the carrying out of an in-depth assessment of the organization and operation of conciliation centers; (v) the carrying out of surveys of conciliation centers' users, conciliators and court staff; (vi) the development of a communication strategy for the promotion of ADR; and (vii) the development of training programs on ADR for judges, users and potential users of ADR;

(c) the strengthening of community justice, through: (i) the implementation of a training strategy for lay justices of the peace and community leaders on subjects such as, leadership, conciliation skills, human rights, mediation techniques and techniques for handling family-related conflicts, gender and youth issues, multiculturalism and customary law; (ii) the review of the selection processes for lay justices of the peace; (iii) the carrying out of studies on community justice as an effective dispute resolution mechanism and its linkages with the formal justice system; (iv) the provision of equipment and supplies to meet the needs of lay justices of the peace in rural communities; (v) the design and implementation of joint programs for the strengthening of the institutional and technical linkages between justices of the peace and first instance courts; and (vi) the design and delivery of training programs for justices of the peace;

(d) the strengthening of the operational capabilities of the family court system to effectively deal with, *inter alia*, domestic violence, separation matters and child support cases, through: (i) the provision of technical assistance for the development of service delivery models for the resolution of family related conflicts; and (ii) the development and implementation of an inventory and referral system in the family courts in connection with existing social support services; and

(e) the strengthening of the quality of services delivered by the first instance courts, through: (i) the development of client responsive policies and operational procedures; (ii) the production and dissemination of educational materials on basic legal rights and the protection of such rights by the court system; (iii) the development and implementation of a court interpreter program in indigenous languages; and (iv) the carrying out of training programs for judges and court administrative personnel in conciliation methods, gender and multiculturalism, and pro-poor service delivery.

3. Strengthening of the awareness of Peruvian civil society of the benefits of having independent, competent and equitable judicial institutions, through public outreach and dissemination activities, including:

(a) (i) the development and promotion of an interactive dialogue between the Participating Institutions and civil society regarding issues of proposed reform within the Borrower's judicial sector; (ii) the promotion of a better understanding on justice sector issues by the public and the media; and (iii) the development of a program of events aimed at building a stronger public trust in the justice sector;

(b) the strengthening of the communications capacity of the Participating Institutions to improve their ability to share information, among themselves, and with the Peruvian civil society; and

(c) the promotion of pilot cultural change activities involving judicial staff and civil society stakeholders.

4. The provision of technical support, including consultants' services, training and equipment to MINJUS for the development of, in a coordinated manner with the Participating Institutions, a sector wide strategy reform of the Borrower's justice sector.

Part D: Project Management, Coordination and Monitoring

Improving the Project coordination, management and monitoring and evaluation capabilities of the PCU, the Participating Institutions and the Project Districts, through:

1. the strengthening of the technical, coordination, management, financial and procurement capabilities of the PCU and the staff of the Participating Institutions and the Project Districts, through the provision of technical assistance and training;

2. the provision of operational support to the PCU;

3. the carrying out of Project financial audits; and

4. the establishment of Project monitoring and evaluation arrangements, through:
 - (a) the carrying out of Project monitoring and effective consensus-building activities;
 - (b) the carrying out of diagnostic assessments of the Participating Institutions, surveys and annual reports; and
 - (c) the organization of workshops for staff of the Participating Institutions and the Project Districts.

The Project is expected to be completed by December 31, 2007.

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 shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Date Payment Due</u>	<u>Installment Share</u> <u>(Expressed as a percentage)</u>
On each January 15 and July 15 beginning July 15, 2012, through July 15, 2017.	8,33%
On January 15, 2018	8,37%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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.

SCHEDULE 4

Procurement

Section I. Procurement of Works and Goods

Part A: General

Works and 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: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, works and goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to works and goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Grouping of contracts

To the extent practicable, contracts for works and goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Contracts for: (a) goods estimated to cost less than \$500,000 but more than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent; and (b) works estimated to cost less than \$5,000,000 but more than \$250,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods (including those financed under Part D of the Project) estimated to cost \$100,000 equivalent or less per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, may 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.

3. Procurement of Small Works

Works estimated to cost \$250,000 equivalent or less per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for 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 Guidelines. Procurement of all works and goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply with respect to each contract procured in accordance with Parts B and C.1 of this Section I.

(b) With respect to each contract for works estimated to cost the equivalent of \$350,000 or more to be procured in accordance with the procedures referred to in Part C.1 (b) of this Section; the first two contracts for works to be procured under Part C.3 of this Section; each contract for goods estimated to cost the equivalent of \$350,000 to be

procured in accordance with the procedures referred to in Part C.1 (a) of this Section; and the first two contracts for goods to be procured under Part C.2 of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures or procurement of small works, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping or procurement of small works procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

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 Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services estimated to cost less than \$100,000 equivalent per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Service 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.

3. Individual Consultants

Services of individual consultants for tasks meeting the requirements set forth in paragraph 5.1 of the Consultant Guidelines, up to an aggregate amount equivalent to \$2,900,000, shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every year during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan, as updated from time to time, as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$100,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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.

Section III: Special Provisions

Part A:

In addition and without limitation to any other provision set forth in this Schedule or the Guidelines, the following rules shall govern all procurement of goods referred to in Part C.1 of Section I of this Schedule:

1. Foreign suppliers shall not be required to be locally registered as a condition of submitting bids.
2. Reference value shall not be required to be published in the bidding documents.
3. No minimum number of responsive bids shall be required prior to awarding a contract.
4. Foreign suppliers shall not be required to legalize their bidding documents or any documentation related to such documents with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to submitting their bids.
5. Prices of awarded contracts may be adjusted, provided that the contracts have a duration of more than one year.
6. The bidding documents used for the procurement of goods shall be acceptable to the Bank.

Part B:

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

1. Foreign consultants 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 request for proposals 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.
5. Prices of awarded contracts may be adjusted, provided that the contracts have a duration of more than one year.
6. The requests for proposal and the contract forms for the employment of consultants shall be acceptable to the Bank.

SCHEDULE 5

Implementation Program

Part A: Implementation Arrangements

Joint responsibility for the implementation of the Project shall be vested in the Participating Institutions and the Project Districts as follows:

1. National Steering Committee

(a) The Participating Institutions shall establish, and thereafter maintain, throughout Project implementation, a national steering committee (CDP) with membership, structure, functions and responsibilities satisfactory to the Bank. The CDP shall be chaired by the President of SCJ, or its designated representative, and shall comprise designated representatives of AMAG, the CNM, MINJUS and the Judiciary.

(b) The CDP shall be responsible, *inter alia*, for: (i) providing overall policy and strategic guidance to ensure timely Project implementation; (ii) ensuring appropriate inter-institutional coordination among the Participating Institutions, and promoting the resolution of any issues which may affect Project implementation; (iii) carrying out general oversight and quality assurance controls to ensure efficient Project implementation pursuant to the provisions of this Agreement and the Subsidiary Agreement; and (iv) promoting an ongoing dialogue with the Peruvian civil society on the reform process and strategy to be developed under the Project.

2. Project Coordination Unit

(a) The Judiciary shall establish and thereafter maintain, at all times, within its *Gerencia General* (GG) until the completion of the Project, a project coordination unit (PCU) with functions and responsibilities satisfactory to the Bank, including, *inter alia*, the following functions and responsibilities: (i) monitoring the implementation of the Project and ensuring effective coordination among the staff and institutions responsible for the implementation of the Project; (ii) preparing, in close consultation with the Participating Institutions and the Project Districts, and submitting to the Bank the reports referred to in paragraph Part C. (b) of this Schedule, all in accordance with the timetable, guidelines and terms detailed in the Operational Manual; (iii) in close consultation with the Participating Institutions and the Project Districts, carrying out of the procurement of works, goods and consultants' services required for Project implementation pursuant to the provisions of Schedule 4 to this Agreement; (iv) overseeing the general

administration of the Project, with respect to Loan proceeds withdrawal, financial management, accounting and auditing, including the hiring and supervision of the auditors referred to under Section 4.01 (b) of this Agreement; (v) reviewing, jointly with the Borrower and the Bank, progress achieved by the Participating Institutions and the Project Districts in the implementation of their respective activities under the Project, on the basis of the annual operating plans referred to in Part B.2 of this Schedule; and (vi) identifying any possible obstacle or difficulty affecting or threatening to affect Project implementation and proposing appropriate solutions to such obstacle or difficulty.

(b) The PCU shall be staffed, at all times, throughout Project implementation by qualified and experienced technical and clerical staff in adequate numbers and with terms of reference satisfactory to the Bank, as follows: (i) key personnel, including a Project coordinator (the Project Coordinator), who shall be responsible for day-to-day implementation of Project activities and providing technical secretariat support to the CDP; a Project accountant (the Project Accountant), who shall be responsible for accounting, auditing and preparation of consolidated financial reports required under the Project; a Project treasurer (the Project Treasurer) who shall be responsible for the management of Project accounts, including the Special Account; and a procurement specialist (the Procurement Specialist) who shall be responsible for the carrying out of procurement and contractual aspects required for the implementation of the Project; and (ii) other technical, administrative and professional personnel, which may be required for the effective implementation of the Project, including, *inter alia*, three technical coordinators (the Technical Coordinators) who shall be responsible for day-to-day coordination of Project activities with dedicated staff of the Participating Institutions (*Funcionario de Enlace*) and the Project Districts (Project District implementation staff) assigned to the implementation of their respective Project activities.

3. Project District Implementation Staff

For the purposes of carrying out its respective activities under the Project, the Judiciary, shall cause each Project District to:

(a) appoint within its Superior Court, within two weeks following the execution of the Performance Agreement, and thereafter maintain, at all times, until the completion of the Project, experienced technical and judicial staff (the Project District implementation staff), in adequate numbers and with functions and responsibilities satisfactory to the Bank; and

(b) ensure that the Project District implementation staff carries out, *inter alia*, the following duties: (i) preparation of a plan of activities proposed for each year of Project implementation, pursuant to the provisions of Part B.2 of this Schedule; (ii) coordination with the PCU of all aspects pertaining to the procurement of works, goods and consultants' services to be carried out pursuant to the provisions of Schedule 4 to this

Agreement with the terms and implementation timetable included in the corresponding Performance Agreement; (iii) provision of information and documentation to the PCU regarding the preparation of annual progress reports and financial management requirements under the Project.

Part B: Implementation Actions

1. Operational Manual.

Except as the Borrower and the Bank shall otherwise agree:

(a) the Participating Institutions and the Project Districts shall carry out their respective activities under the Project, in accordance with the terms of a manual, satisfactory to the Bank (the Operational Manual), containing detailed procedures and guidelines for the carrying out of the Project, including, *inter alia* : (i) eligibility criteria to determine the selection and approval of the Project Districts for the purposes of receiving financing under the Project; (ii) terms, conditions and standard contractual terms for the Performance Agreements; (iii) detailed terms of reference, procedures and timetable for the establishment and maintenance of financial management, accounting and auditing systems under the Project; (iv) procedures, requirements and standard contractual terms for the procurement of works, goods and consultants' services financed under the Project; (v) institutional and administrative mechanisms established to ensure inter-institutional coordination, including the terms of reference and functions and responsibilities of the CDP, the PCU, the coordination staff (*Funcionario de Enlace*) of the Participating Institutions and the Project District implementation staff; (vi) terms of reference and procedures for the monitoring and evaluation of Project implementation; and (vii) guidelines for the consultation with civil society and the media, and dissemination of information related to the implementation of the Project; and

(b) the Borrower, through the PCU, shall not amend, waive or fail to enforce the Operational Manual, or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.

2. Annual Operating Plan

For the purposes of carrying out of the Project, the Borrower, through the PCU, shall:

(a) prepare, in accordance with guidelines detailed in the Operational Manual, and, by not later than November 30 in each year of Project implementation, starting on November 30, 2004 submit to the Bank a consolidated annual operating plan

(AOP) satisfactory to the Bank, including a description of activities (based on the individual annual operating plan prepared by each one of the Participating Institution and the Project Districts) proposed for the upcoming year, a budget, a financial plan (detailing the amount of counterpart funds to be provided in such year), a training program, and a procurement plan for the procurement of works, goods and consultants' services required to carry out such activities;

(b) review with the Bank said AOP, within four weeks following the submission of said plan; and

(c) thereafter take all measures required to ensure the efficient completion and achievement of said AOP, based on the views of the Bank on said plan.

Part C: Annual and Mid-Term Project Reviews

Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrower, through the PCU, shall during the execution of the Project:

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

(b) prepare and furnish to the Bank, by not later than March 31 in each year of Project implementation starting on March 31, 2005, until the completion of the Project, reports, in a format satisfactory to the Bank, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, which reports shall include: (i) a detailed description of Project activities completed during the twelve months preceding the date of said report; and (ii) a detailed progress report, including lessons learned during Project implementation, and identifying any issue that may delay Project implementation and setting out the measures recommended to solve such issue;

(c) review with the Bank, by June 30 in each year, starting on June 30, 2005, until the completion of the Project, the reports referred to in subparagraph (b) of this paragraph, and, carry out an annual project implementation review to, *inter alia*: (i) evaluate progress achieved by the Participating Institutions and the Project Districts, in carrying out their respective activities under the Project; (ii) assess progress in the carrying out of the training activities supported by the Project; (iii) assess the adequacy and timeliness of the provision of counterpart funding provided during the previous year in accordance with the provisions of the Borrower's budgetary process, and review the proposed allocations for the upcoming year to ensure the timely implementation of the Project; (iv) exchange views on progress achieved in the implementation of the AOP during the previous year, and proposed activities for the upcoming year; (v) assess

progress achieved by the Participating Institutions in implementing the sector wide reform strategy developed throughout the life of the Project and identify any cause that may delay or impede such implementation; (vi) assess and adjust, if necessary, the Monitoring Indicators; and (vii) identify any current implementation issues and propose solutions to resolve such issues;

(d) at the third annual review, carry out a comprehensive mid-term assessment of Project implementation; and

(e) after each of the preceding reviews, 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 the said reviews and the Bank views on the matter.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equal to \$1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$500,000 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 be equal to or exceed the equivalent of \$2,500,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For the replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Bank, within the 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 the records and accounts for the Special Account;

- (c) 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 the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank

shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.