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LOAN NUMBER 4678-PE

Loan Agreement

(Second Programmatic Social Reform Loan)

between

REPUBLIC OF PERU

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated, September 25, 2002

LOAN NUMBER 4678-PE

LOAN AGREEMENT

AGREEMENT, dated September 25, 2002 between REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Bank has received from the Borrower letters, dated March 8, 2001 and May 20, 2002 describing a program of actions, objectives and policies designed to reform the Borrower's essential social programs (the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during the execution thereof; and

(B) the Borrower has carried out the measures and taken the actions described in Schedule 3 to this Agreement to the satisfaction of the Bank and has maintained a macroeconomic policy framework satisfactory to the Bank;

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 October 6, 1999), with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 18, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Loan Agreement, in support of which the Loan is made.”;

(b) Section 4.01 is modified to read:

“Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the deposit account specified in Section 2.02 of the Loan Agreement.”;

- (c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Loan from the Loan Account in accordance with the provisions of the Loan Agreement and of these General Conditions”;

- (d) The last sentence of Section 5.03 is deleted;

- (e) Section 9.07 (c) shall be modified to read:

“(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 program referred to in the Preamble to the Loan Agreement, 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.”; and

- (f) Section 9.05 is deleted and Sections 9.06, 9.07 (as modified above), 9.08 and 9.09 are renumbered, respectively, Sections 9.05, 9.06, 9.07 and 9.08.

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) “*A Trabajar*” means the Borrower’s emergency social productive program established pursuant to Urgency Decrees No. 117-2001 published on October 3, 2001 and 130-2001 published on December 6, 2001;

(b) “*A Trabajar Operational Framework*” means the Borrower’s guidelines for the implementation of *A Trabajar* set forth in letter No. 062-20002-PCM-ST-CIAS of May 14, 2002 from the Borrower to the Bank;

(c) “*Alimentación Infantil*” means the following Borrower’s food and nutrition programs: (i) PANFAR (*Programa de Alimentación y Nutrición a la Familia en Alto Riesgo*) established by an agreement between MINSA (as hereinafter defined) and PROMARN (*Programa de Alimentación y Nutrición al Menor en Abandono y en Riesgo*) signed on August 26, 1988; and (ii) PACFO (*Programa de Complementación*

Alimentaria) established pursuant to Supreme Decree No. 038-94-PCM published on May 21, 1994;

(d) “Approved Budget” means the Borrower’s approved budget (*Presupuesto Inicial*) for each Fiscal Year (as hereinafter defined);

(e) “Basic Education for All Project” means the Borrower’s education project executed by budget executing unit code No. 026 within the Education and Culture Function (as hereinafter defined);

(f) “CGR” means the Borrower’s Comptroller General’s Office (*Contraloría General de la República*);

(g) “CLAS” means any of the Borrower’s primary health care facilities managed by local communities (*Comunidades Locales de Administración de Salud*);

(h) “Collective Health Program” means the Borrower’s budget program category identified by budget program code No. 063;

(i) “*Comedores Populares*” means the Borrower’s food and nutrition program established pursuant to Supreme Decree No. 113-88-PCM published on September 22, 1988;

(j) “Community Social Assistance and Promotion Program” means the Borrower’s budget program category identified by budget program code No. 014;

(k) “CONSUCODE” means the Borrower’s Superior Council of State Procurement (*Consejo Superior de Contrataciones y Adquisiciones del Estado*);

(l) “Customs Revenues” means the Borrower’s transfers to municipalities established pursuant to Legislative Decree No. 776 published on December 31, 1993;

(m) “Defense and Public Security Function” means the Borrower’s budget function category identified by budget code No. 07;

(n) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(o) “*Desayunos Escolares*” means the Borrower’s food and nutrition program established pursuant to Supreme Decree No. 032-2001-PCM published on December 3, 2001;

(p) “DGSP” means the Borrower’s General Directorate of Public Health (*Dirección General de Salud Pública*);

(q) “DISA” means any of the Borrower’s regional health departments (*Direcciones de Salud*);

(r) “Education and Culture Function” means the Borrower’s budget function identified by budget function code No. 09;

(s) “Education Projects” means collectively the Basic Education for All Project, the Initial and Secondary Education Quality Improvement Project (as hereinafter defined), and the Primary Education Project (as hereinafter defined);

(t) “Education Projects Minimal Allocations” means the minimal allocations for Education Projects set forth in letter No. 148-2002-EF/76.01 of May 14, 2002 from the Borrower to the Bank;

(u) “ENAH0 IV” means the Borrower’s fourth national household survey (*Encuesta Nacional de Hogares IV*);

(v) “ESSALUD” means the Borrower’s social health insurance service (*El Seguro Social de Salud*);

(w) “Executed Budget” means the Borrower’s executed budget (*Presupuesto Devengado*) for each Fiscal Year (as hereinafter defined);

(x) “Fiscal Year” means any of the Borrower’s fiscal years commencing on January 1st and ending on December 31st of each calendar year;

(y) “FONCODES” means the Borrower’s compensation and social development fund (*Fondo de Compensación y Desarrollo Social*);

(z) “FONCOMUN” means the Borrower’s municipal compensation fund (*Fondo de Compensación Municipal*);

(aa) “Food and Nutrition Programs” means collectively *Alimentación Infantil, Comedores Populares, Desayunos Escolares*, PACFO (as hereinafter defined) and *Vaso de Leche* (as hereinafter defined);

(bb) “Health and Sanitation Function” means the Borrower’s budget function category identified by budget function code No. 14;

(cc) “INADE” means the Borrower’s National Development Institute (*Instituto Nacional de Desarrollo*);

(dd) “INADE Rural Infrastructure Projects” means the following rural infrastructure projects of INADE: (i) *Alto Huallaga*, established pursuant to Supreme Decree No. 048-81-PCM published on December 1, 1981; (ii) *Huallaga Central-Bajo Mayo*, established pursuant to Decree Law No. 22517 published on May 1, 1979; (iii) *Pichis Palcazu* established pursuant to Supreme Decree No. 137-80-AA published on October 10, 1980; (iv) *Madre de Dios*, established pursuant to Supreme Decree No. 020-81-PCM published on May 15, 1981; (v) *Río Putumayo*, established pursuant to Supreme Decree No. 153-91-PCM published on September 27, 1991; and (vi) *Sierra Centro Sur*, established pursuant to Supreme Decree No. 072-82-PCM published on August 20, 1982;

(ee) “Individual Health Program” means the Borrower’s budget category identified by budget program code No. 064;

(ff) “INEI” means the Borrower’s National Statistics and Informatics Institute (*Instituto Nacional de Estadística e Informática*);

(gg) “INEI Organization and Functions Law” means the Borrower’s Decree Law No. 604 published on May 3, 1990;

(hh) “Initial Education Program” means the Borrower’s budget program category identified by budget program code No. 026;

(ii) “Initial and Secondary Education Quality Improvement Project” means the Borrower’s education project executed by budget executing unit code No. 028 within the Education and Culture Function;

(jj) “MEF” means the Borrower’s Ministry of Economy and Finance (*Ministerio de Economía y Finanzas*);

(kk) “*Mesa de Concertación de Lucha contra la Pobreza*” means any of the Borrower’s dialogue mechanisms on poverty issues established pursuant to Supreme Decree No. 001-2001-PROMUDEH published on January 19, 2001;

(ll) “Mining Canon” means the Borrower’s transfers to municipalities established pursuant to Article 193 of the Borrower’s Constitution and the Borrower’s Law No. 27506 published on July 10, 2001;

(mm) “MINSA” means the Borrower’s Ministry of Health (*Ministerio de Salud*);

(nn) “National Control System Law” means the Borrower’s Law No. 26162 published on December 30, 1992;

(oo) “Performance Management Agreements” means any of the agreements entered into between MINSA and a DISA for the purposes of improving the coverage of health services by DGSP and SIS (as hereinafter defined);

(pp) “Poverty Targeting Methodology” means the Borrower’s poverty targeting methodology, for expenditures of Protected Social Programs in the poorest district municipalities, set forth in letter No. 063-2002-PCM-ST-CIAS of May 14, 2002 from the Borrower to the Bank;

(qq) “Primary Education Program” means the Borrower’s budget program category identified by budget program code No. 027;

(rr) “Primary Education Quality Improvement Project” means the Borrower’s education project executed by budget executing unit code No. 027 within the Education and Culture Function;

(ss) “Priority Protected Social Programs” means collectively the Initial Education Program, the Primary Education Program, the Secondary Education Program, the Individual Health Program, the Collective Health Program, and the Community Social Assistance Program;

(tt) “Priority Protected Social Programs Minimal Allocations” means the minimal allocations for Priority Protected Social Programs set forth in letter No. 123-2002-EF/76.01 of April 25, 2002 from the Borrower to the Bank;

(uu) “PRONAMACHCS” means the Borrower’s watershed management and soil conservation national program (*Programa Nacional de Manejo de Cuencas Hidrográficas y Conservación de Suelos*) established pursuant to the Borrower’s Legislative Decree 653 published on August 1, 1991;

(vv) “Rural Infrastructure Projects” means collectively the INADE Rural Infrastructure Projects and PRONAMACHCS;

(ww) “Secondary Education Program” means the Borrower’s budget program category identified by budget program code No. 028;

(xx) “SIAF” means the Borrower’s integrated financial administration system (*Sistema Integrado de Administración Financiera*);

(yy) “SIS-MI” means the mother and child component of the Borrower’s integrated health insurance program (*Seguro Integral de Salud*) established pursuant to Annex 1, plans A and C, of Supreme Decree No. 003-2002-SA published on May 25, 2002;

(zz) “SIVISO” means the Borrower’s social accountability system (*Sistema de Vigilancia Social*);

(aaa) “Social Assistance and Prevision Function” means the Borrower’s budget function category identified by budget function code No. 014; and

(bbb) “*Vaso de Leche*” means the Borrower’s food and nutrition program established pursuant to the Borrower’s Law No. 24059 published on January 6, 1985.

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 one hundred million Dollars (\$100,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Loan (other than the amount of the fee referred to in Section 2.04 of this Agreement) from the Loan Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Bank the first request for withdrawal from the Loan Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Bank. All withdrawals from the Loan Account shall be deposited by the Bank into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Loan shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Bank shall have determined at any time that any proceeds of the Loan shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Bank: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Bank shall so request, refund such amount to the Bank. Amounts refunded to the Bank upon such request shall be credited to the Loan Account for cancellation.

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 ($3/4$ 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 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, 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 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 May 15 and November 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 2 to this Agreement.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Schedule 3 to this Agreement.

Section 3.02. Upon the Bank's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than four (4) months after the date of the Bank's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning the Deposit Account and the audit thereof as the Bank shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) the Borrower's macroeconomic policy framework has become inconsistent with the objectives of the Program; and

(b) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. The date December 26, 2002 is hereby specified for the 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

Facsimile:

(511) 426-8500 or
(511) 426-2613

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 Washington, District of Columbia, United States of America, 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/ David de Ferranti
Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another loan or a credit;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, un-manufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, un-worked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or execution of such contract, without the

Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

SCHEDULE 2

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Dollars)*</u>
On each May 15 and November 15 beginning on May 15, 2008 through May 15, 2019	\$4,165,000
On November 15, 2019	\$4,205,000

* 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 3

Actions Referred to in Recital (B) of the Preamble to this Agreement

- I. Dignity Pillar: Poverty Reduction, Decent and Productive Job Opportunities
 - A. Poverty Reduction: Reorientation of Public Expenditures and Social Protection
 1. Shift to Pro-Poor Public Expenditures
 - (a) The Borrower has furnished to the Bank evidence that the aggregate allocation in 2002 Approved Budget for:
 - (i) the Education and Culture Function;
 - (ii) the Health and Sanitation Function; and
 - (iii) the Social Assistance Function is equal to, or greater than, the expenditure under the 2001 Executed Budget for all such Functions in real terms.
 - (b) The Borrower has furnished to the Bank evidence that the allocations in the 2002 Approved Budget for the Defense and Public Security Function are less than the expenditures under the 2001 Executed Budget for such Function in real terms.
 2. Priority Protected Social Programs
 - (a) The Borrower has furnished to the Bank evidence that the aggregate expenditure under the 2001 Executed Budget for the Priority Protected Social Programs was equal to, or greater than, the aggregate allocation in the 2001 Approved Budget for such Priority Protected Social Programs.
 - (b) The Borrower has furnished to the Bank evidence that the aggregate allocation in the 2002 Approved Budget for the Priority Protected Social Programs:
 - (i) is equal to, or greater than, the aggregate allocation in the 2001 Approved Budget for such Priority Protected Social Programs in real terms; and

- (ii) includes the Priority Protected Social Programs Minimal Allocations.

3. Temporary Employment

The Borrower has furnished to the Bank evidence that *A Trabajar*:

(a) has been implemented in accordance with the *A Trabajar* Operational Framework; and

(b) has been targeted in accordance with the Poverty Targeting Methodology.

4. Food Programs

(a) The Borrower has unified *Alimentación Infantil* and *Desayunos Escolares* pursuant to Supreme Decree No. 034-2002-PCM published on May 14, 2002.

(b) The Borrower has furnished to the Bank evidence that the expenditures under the 2001 and 2002 Executed Budgets (between July 2001 and March 2002) for the Food and Nutrition Programs have been targeted in accordance with the Poverty Targeting Methodology.

(c) The Borrower has furnished to the Bank evidence that the allocations in the 2002 Approved Budget for *Comedores Populares* are less than the expenditures under the 2000 and 2001 Executed Budgets for such program.

5. Pensions

The Borrower has modified its national pension regimes pursuant to the Borrower's Law No. 27617 published on January 1, 2002.

B. Poverty Reduction: Rationalization of Rural Infrastructure Expenditures

1. The Borrower has unified the Rural Infrastructure Projects pursuant to Supreme Decree No. 011-2002-PRES published on May 20, 2002 and Supreme Decree No.036-2002-PCM published on May 22, 2002.

2. The Borrower has furnished to the Bank evidence that the expenditures under the 2001 and 2002 Executed Budgets (between July 2001 and March 2002) for the Rural Infrastructure Projects have been targeted in accordance with the Poverty Targeting Methodology.

II. Equity Pillar: Access to Health, Nutrition and Education Services

A. Health: Access of the Poor to Health Services

1. Mother/Child Health Insurance

The Borrower has increased SIS-MI coverage through:

(a) the establishment of a benefit plan pursuant to Supreme Decree No. No. 003-2002-SA published on May 25, 2002;

(b) the 2002 Approved Budgets for SIS-MI; and

(c) the establishment of a public decentralized agency for the management of SIS-MI pursuant to the Borrower's Law No. 27657 published on January 29, 2002.

2. Health Services Management

(a) The Borrower has furnished to the Bank evidence that community co-management of health services has improved through:

(i) increased percentage of CLASs among total primary health care facilities; and

(ii) strengthened co-management systems for primary health care facilities pursuant to MINSA's Ministerial Resolution No. 895-2002-SA/DM.

(b) (i) Thirty-four (34) Performance Management Agreements have been entered into; and

(ii) a monitoring plan for such Performance Management Agreements has been adopted pursuant to MINSA's Directorial Resolution No. 225-2002 of April 2, 2002.

B. Health: Improved Efficiency of Health Services

ESSALUD has:

1. approved the action plan for ESSALUD reforms until 2004 pursuant to ESSALUD's Document No. 001-VPCO-ESSALUD-2002 of April 25, 2002; and
2. furnished to the Bank evidence that it has initiated the implementation of ESSALUD reforms:
 - (a) to improve transparency and efficiency; and
 - (b) to establish a system of purchase and sale of services to MINSA.

C. Nutrition

1. The Borrower has furnished to the Bank baseline indicators, in connection with:
 - (a) primary health care facilities that provide a complete package of nutritional interventions for pregnant women;
 - (b) proportion of women who receive full iron supplementation during their last pregnancy; and
 - (c) proportion of children less than 2 years old who receive preventive iron supplementation,

in zones identified in accordance with the Poverty Targeting Methodology.

2. The Borrower has included counseling in health, nutrition, hygiene and iron supplementation for pregnant women and children in the SIS-MI benefit plan pursuant to Annex 1, Plan C, of Supreme Decree No. 003-2002-SA published on May 25, 2002.

D. Education and Culture

1. The Borrower has furnished to the Bank evidence that at least 400 rural teachers have been included in a program to receive economic incentives and at least additional 600 teachers have been included in a program to receive appropriate training pursuant to Document No. 164-ME/VMGP/OER-2002 on April 24, 2002.

2. The Borrower has furnished to the Bank evidence that the allocations in the 2002 Approved Budget include the Education Projects Minimal Allocations.

3. (a) The Borrower has modified the rules on teachers' appointment pursuant to the Borrower's Law No. 27491 published on June 29, 2001;

(b) the Borrower has issued regulations for the Borrower's Law No. 27491 published on June 29, 2001 pursuant to the Borrower's Supreme Decrees No. 065-2001-ED published on November 8, 2001, 071-2001-ED published on December 18, 2001, and 002-2202-ED published on February 2, 2002;

(c) the Borrower has furnished to the Bank evidence that 22,100 teachers have been appointed in accordance with the provisions of the norms referred to in subparagraph (b) above; and

(d) the Borrower has furnished to the Bank evidence that the norms referred to in subparagraph (b) above have been enforced with the participation of the Borrower's Ombudsman's Office and civil society organizations.

4. The Borrower has furnished to the Bank evidence that there has been a reduction of at least 30% enrollment in teacher training institutions pursuant to Directorial Resolutions 101-2002-ED published on January 25, 2002, 209-2002-ED published on February 26, 2002 and 450-2002-ED published on April 2, 2002.

5. The Borrower has implemented a pilot system for registering citizens' complaints in the education sector pursuant to Supreme Resolution No. 273-2001-ED published on October 11, 2001.

6. The Borrower has established mandatory school councils pursuant to Ministerial Resolution 168-2002-ED published on March 14, 2002.

III. Institutionality Pillar: Better Governance

A. Transparency and Access to Information

1. The Borrower has furnished to the Bank a strategy dated May 13, 2002 for increased transparency in the Priority Protected Social Programs, *A Trabajar*, the Food and Nutrition Programs, SIS-MI, including: (a) measures to improve access and presentation of SIAF information through an internet-based application that links SIAF information with sectoral program, project and activity information; and (b) increased

capacity of local authorities and communities to use such information as a planning and tracking tool.

2. The Borrower has included in MEF's economic transparency website information on the following monthly transfers of the Borrower's budget to provincial and district municipalities: (a) Customs Revenues; (b) FONCOMUN; (c) the Mining Canon; and (d) *Vaso de Leche*.

3. The Borrower has prepared a draft Supreme Decree for the standardization of processes and technologies that facilitate the production and utilization of geographic information systems data.

4. The Borrower has furnished to the Bank evidence that *A Trabajar* has started a dissemination campaign regarding transparency in 530 rural district municipalities.

5. A draft law to amend the INEI Organization and Functions Law so as to ensure INEI's functional autonomy has been prepared by the Borrower.

6. The Borrower has made allocations in the 2002 Approved Budget for the implementation of ENAHO IV at the regional level, including a module on public perceptions regarding transparency, practices and attitudes.

7. The Borrower has furnished to the Bank evidence that the Borrower's Ombudsman's Office has started a dissemination campaign regarding citizens' rights of access to information.

B. Participation and Partnerships in Public Policy

1. The Borrower has furnished to the Bank evidence that SIVISO has been launched in at least 10 district municipalities in 3 different departments.

2. The Borrower has furnished to the Bank evidence that at least six regional development plans have been agreed upon by *Mesas de Concertación de Lucha contra la Pobreza*.

3. The Borrower has issued directives on participatory processes for budget preparation at the regional level pursuant to Directorial Resolution No. 022-2002-EF/76.01 on May 12, 2002.

C. Transparency in Procurement and Financial Administration

1. The Borrower has issued policy guidelines for the implementation of an electronic procurement system to improve transparency and efficiency in public contracting pursuant to Supreme Decree No. 031-2002-PCM published on May 8, 2002.
2. An inter-institutional agreement dated December 13, 2001 has been entered into between CGR and CONSUCODE for the purposes of strengthening the oversight and efficiency of public contracting.
3. A draft law to amend the National Control System Law so as to ensure CGR's functional autonomy has been submitted to the Borrower's Congress.
4. The Borrower has furnished to the Bank evidence that CGR is exercising ex-post controls over financial matters of the Borrower's Ministry of Defense and other security services of the Borrower pursuant to the Borrower's accordance with the National Control System Law.
5. The Borrower has developed a SIAF version for local governments financial management pursuant to Document No. RFP/SIA 020513.2011 on May 13, 2002.

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