

CONFORMED COPY

LOAN NUMBER 7954-PE

Loan Agreement

**(Fourth Programmatic Fiscal Management and Competitiveness
Development Policy Loan)**

between

REPUBLIC OF PERÚ

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 23, 2010

LOAN AGREEMENT

Agreement dated September 23, 2010, entered into between REPUBLIC OF PERÚ (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macroeconomic policy framework. The Borrower and the Bank therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of \$100,000,000 (one hundred million Dollars), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”).
- 2.02.
 - (a) The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
 - (b) The Borrower’s Director of Public Indebtedness, or any person designated in writing, is designated as the representative of the Borrower for purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 (a) of this Agreement and Article II of the General Conditions.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount

shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 2 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- 2.08. Without limitation upon the provisions of Section 5.08 of the General Conditions (renumbered as such pursuant to paragraph 4 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
 - (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower’s macroeconomic policy framework and the progress achieved in carrying out the Program;

- (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
- (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program, including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank's approval of the Loan which expire on February 27, 2012.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. Except as provided in Section 2.02 (b) of this Agreement, the Borrower's representative is its Minister of Economy and Finance, provided that the Borrower's Director of Public Indebtedness may, by him or herself, represent the Borrower to sign amendments to this Agreement which are considered of an administrative and non-financial nature. The signing by such Director of an amendment shall constitute a representation by the Borrower that any such amendment is considered to be administrative and non-financial in nature.
- 6.02. The Borrower's Address is:

Ministry of Economy and Finance
Jr. Junín 319
Lima, Perú

Facsimile: (511) 626-9921

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

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

REPUBLIC OF PERÚ

By /s/ Ismael Benavides

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ C. Felipe Jaramillo

Authorized Representative

SCHEDULE 1

Program Actions; Availability of Loan Proceeds; Access to Information

Section I. Actions Taken under the Program

- A. The actions taken by the Borrower under the Program to promote sound fiscal management by, *inter alia*: (i) increasing the sustainability and transparency of fiscal policy; (ii) enhancing the neutrality and stability of the tax system; (iii) strengthening budget planning and reporting; (iv) increasing equity in inter-governmental transfers; and (v) improving the efficiency and impact of public spending, include the following:
1. Issuance of various legal instruments pertaining to performance-based transfer of resources from the Executive to Municipalities, including, *inter alia*, the following:
 - (a) Decree (*Decreto de Urgencia* No. 119-2009 *Modifican Artículos de las Leyes Nos. 29332 y 29465 y Dictan Medidas Extraordinarias Para el Financiamiento de la Continuidad de las Inversiones durante el Año Fiscal 2010*) dated December 23, 2009 and published in the Borrower's Official Gazette (*El Peruano*) on December 24, 2009.
 - (b) Decrees No. 002-2010-EF and 003-2010-EF, both dated January 11, 2010 and published in the Borrower's Official Gazette (*El Peruano*) on January 12, 2010, establishing the procedures regulating performance measurement criteria and targets and the allocation of resources to Municipalities.
 - (c) Resolution No. 008-2010-EF/76.01 issued by the Directorate of Public Budget on March 30, 2010 and published in the Borrower's Official Gazette (*El Peruano*) on April 1, 2010, approving the results of compliance by Municipalities of performance targets as reported by said Municipalities by February 2010.
 2. Issuance of Resolution No. 036-2010/SUNAT dated January 29, 2010 and published in the Borrower's Official Gazette (*El Peruano*) on January 31, 2010, providing for procedures aimed at improving tax compliance, through, *inter alia*, the establishment of online tax filing procedures (*Formulario Virtual para la Declaración y Pago de Renta de Segunda Categoría*) in regard to income taxes (*impuesto a la renta*).

3. Enactment by the Legislature of the Borrower's Law No. 29537 dated June 7, 2010 and published in the Borrower's Official Gazette (*El Peruano*) on June 8, 2010, mandating the timely preparation and disclosure of consolidated government financial statements (*Cuenta General de la República*) and audit reports aimed at strengthening further the Borrower's budget reporting capacity.
 4. Issuance of Supreme Decree No. 060-2010-EF dated February 17, 2010 and published in the Borrower's Official Gazette (*El Peruano*) on February 18, 2010, setting forth a new methodology for the allocation of FONCOMUN resources to Municipalities, thereby promoting equity in transfers of resources from the Executive to the Municipalities.
- B.** The actions taken by the Borrower under the Program to strengthen competitiveness by, *inter alia*: (i) expanding and facilitating international trade; and (ii) promoting sustainable financial deepening, include the following:
1. (a) The closure of the negotiation process of a proposed trade agreement between the Borrower and the EU, as evidenced by the signing of the Joint Declaration on May 19, 2010.
 - (b) The issuance of Supreme Decree No. 096-2010-EF dated March 26, 2010 and published in the Borrower's Official Gazette (*El Peruano*) on March 27, 2010 establishing October 1, 2010 as the completion date for the progressive implementation of simplified customs procedures.
 2. The adoption of Resolution CONASEV No. 068-2009/94.01.1 dated September 24, 2009 and published in the Borrower's Official Gazette (*El Peruano*) on September 29, 2010, aimed at strengthening the Borrower's regulatory framework for asset securitization and therefore promoting the development of the Borrower's capital markets.

Section II. Availability of Loan Proceeds

- A. General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.

- B. Allocation of Loan Amounts.** The Loan is allocated in a single tranche, from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Allocated (expressed in Dollars)</u>
Single Withdrawal Tranche	100,000,000
TOTAL AMOUNT	100,000,000

- C. Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

D. Withdrawal Tranche Release Conditions

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the appropriateness of the Borrower's macroeconomic policy framework.

- E. Deposits of Loan Amounts.** Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

- F. Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

- G. Closing Date.** The Closing Date is December 31, 2011.

- H. Access to Information.** The Bank may disclose the Legal Agreements and any information related to the Legal Agreements in accordance with its policy on access to information, in effect at the time of such disclosure.

SCHEDULE 2

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
October 15, 2021	20 %
April 15, 2022	35 %
October 15, 2022	15 %
April 15, 2023	20 %
October 15, 2023	10 %

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX

Section I. Definitions

1. “CONASEV” means *Comisión Nacional Supervisora de Empresas y Valores*, the Borrower’s commission for the supervision of enterprises and securities established and operating within the Ministry of Economy and Finance pursuant to the provisions of the Borrower’s Law Decree No. 19648 dated December 5, 1972 and published in the Borrower’s Official Gazette (*El Peruano*) on December 7, 1972, as amended to the date of this Agreement.
2. “Directorate of Public Budget” means *Dirección General de Presupuesto Público*, the Borrower’s budget general directorate within the Ministry of Economy and Finance.
3. “European Union” or “EU” means a political and economic integration mechanism promoting cooperation among its states established pursuant to the provisions of the Maastricht Treaty, dated July 29, 1992, and published in the EU’s Official Journal No. C.191 on July 29, 1992, as amended to the date of this Agreement.
4. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials

Group	Sub-group	Description of Item
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
- (c) "Executive" means the Borrower's executive branch of government
 - (d) "FONCOMUN" means *Fondo de Compensación Municipal*, the Borrower's municipal compensatory fund established and operating pursuant to the provisions of the Borrower's Legislative Decree No. 776 dated December 30, 1993 and published in the Borrower's Official Gazette (*El Peruano*) on December 31, 1993, as amended to the date of this Agreement.
 - (e) "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.

- (f) “Joint Declaration” means *Declaración de Conclusión de las Negociaciones de un Acuerdo Comercial entre la República del Perú, la República de Colombia y la Unión Europea*, the joint declaration signed between the Borrower (represented by its Ministers of External Relations and Foreign Trade and Tourism), the Republic of Colombia and the EU (represented by the EU Commissioner for Trade) dated May 19, 2010.
- (g) “Law No. 29332” means *Ley No. 29332 que Crea el Plan de Incentivos a la Mejora de la Gestión Municipal*, the Borrower’s Law dated March 20, 2009 and published in the Borrower’s Official Gazette (*El Peruano*) on March 21, 2009, as amended to the date of this Agreement, establishing the Borrower’s plan of financial incentives to improve managerial practice, at the Municipality-level.
- (h) “Law No. 29465” means *Ley No. 29465 de Presupuesto del Sector Público para el Año Fiscal del 2010*, the Borrower’s Law dated December 7, 2009 and published in the Borrower’s Official Gazette (*El Peruano*) on December 8, 2009, as amended to the date of this Agreement, establishing the Borrower’s *Programa de Modernización Municipal*, a program for the modernization of its Municipalities.
- (i) “Legislature” means the Borrower’s legislative branch of government.
- (j) “Ministry of Economy and Finance” means *Ministerio de Economía y Finanzas*, the Borrower’s ministry responsible for economy and finance, and its successor or successors thereto.
- (k) “Municipality” means *municipalidad*, a political subdivision of the Borrower.
- (l) “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated July 7, 2010 from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
- (m) “Single Withdrawal Tranche” means the amount of the Loan allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
- (n) “SUNAT” means *Superintendencia Nacional de Administración Tributaria*, the Borrower’s regulatory agency responsible for tax administration established and operating pursuant to the provisions of the Borrower’s Law No. 24829 dated June 7, 1988 and published in the Borrower’s Official Gazette (*El Peruano*) on June 8, 1988, as amended to the date of this Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Paragraph (a) of Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

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

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

4. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.
5. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 4 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
6. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

7. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 4 above) is modified to read as follows:

“Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

8. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”

- (b) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

- (c) The term “Financial Statements” and its definition are deleted in their entirety.

- (d) The term “Project” is modified to read “Program” and its definition is modified to read as follows (and all references to “Project” throughout these General Conditions are deemed to be references to “Program”):

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.”

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

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