

CONFORMED COPY

LOAN NUMBER 7423-PE

Loan Agreement

(Decentralized Rural Transport Project)

between

REPUBLIC OF PERU

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated April 16, 2007

LOAN AGREEMENT

Agreement dated April 16, 2007, between REPUBLIC OF PERU (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank 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 the Loan 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 fifty million dollars (US\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent ($\frac{3}{4}$ of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. In the event that the Borrower selects not to capitalize the Front-end Fee, the Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time

- to time; 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.
- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (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 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.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for 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 the purpose in the table in Section IV of Schedule 2 to this Agreement.
- 2.09. The Borrower’s Minister at the time responsible for Finance or the Borrower’s Director General at the time responsible for public indebtedness, or any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for purposes of taking any action required or permitted to be taken under the provisions of Section IV of Schedule 2 to this Agreement and Article II of the General Conditions.

ARTICLE III—PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project consistent with Decentralized Rural Roads Framework. To this end, the Borrower shall carry

out the Project through *Provias Descentralizado* within MTC in accordance with the provisions of Article V of the General Conditions.

- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

- (a) The Borrower's Decentralized Rural Roads Framework has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely in the opinion of the Bank, the ability of the Borrower to perform any of its obligations under this Agreement.
- (b) *Provias Descentralizado's* Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.
- (c) The Co-financing Agreement has not become effective before the Co-financing Deadline, or such later date as the Bank may agree, provided that the provisions of this subparagraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (d) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Borrower to withdraw the loan proceeds of the Co-financing Agreement has been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Co-financing Agreement; or (B) such loan has become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this subparagraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under the Co-financing Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- 4.02. The Additional Events of Acceleration consist of the following:
- (a) Any event specified in paragraphs (a), (b) or (c) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.
 - (b) The event specified in paragraph (d) (i) of Section 4.01 of this Agreement occurs, subject to the proviso of paragraph (d) (ii) of such Section.
- 4.03. The Co-financing Deadline for the effectiveness of the Co-financing Agreement is twelve months after the Effective Date.

ARTICLE V—EFFECTIVENESS

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that: the Project Operational Manual has been adopted by the Borrower in form and substance satisfactory to the Bank and through a Directorial Resolution by *Provias Descentralizado*.
- 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 June 19, 2008.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Economy and Finance.
- 6.02. The Borrower's Address is:

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

Facsimile:
(511) 426-8500

- 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 the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PERU

By /s/ Luis Carranza Ugarte
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marcelo Giugale
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to territorial development and to the fight against rural poverty in the Borrower's territory by improving access of rural households and entrepreneurs to goods, social services and income generating opportunities through reduced transport costs and better rural transport infrastructure.

The Project consists of the following parts:

Component 1. Improvement of Rural Transport Infrastructure

Scaling-up and improving the decentralized management of rural roads in the entire Borrower's territory by: (i) rehabilitating or improving rural roads prioritized through the Participatory Provincial Road Plans; (ii) improving and re-constructing selected connecting bridges; (iii) insuring periodic maintenance of rural roads; (iv) improving non-motorized transport tracks; (v) improving other types of rural transport infrastructure (including river-based equipment); and (vi) launching initial activities for the stabilization of slopes and the protection of rural roads against river-based erosion.

Component 2. Institutional Development

a. Providing comprehensive institutional strengthening to MTC at the central level in order to improve regulatory capacity by, inter alia: (i) defining and regulating policies for rural transport; (ii) promoting research and innovation in rural transport; (iii) launching a fiscal revenues and road development study; and (iv) assisting in other related activities for MTC agencies involved in decentralized rural policies.

b. Providing comprehensive institutional strengthening to District Municipalities and Provincial Municipalities in order to empower them to better implement their rural transport policies by, inter alia: (i) preparing or updating Participatory Provincial Road Plans; (ii) improving the existing routine maintenance system with micro-enterprises; (iii) enhancing local capacity to handle social, cultural and environmental safeguards; (iv) mobilizing municipal financing for rural transport; (v) promoting private financing for rural transport; (vi) scaling-up the geographic information system experience; and (vii) assisting said municipalities as well as Selected PIIs and Selected PRIs in other related capacity-building activities.

Component 3. Transport for Territorial Development

Enhancing impact of improved transport conditions on rural development by fostering complementarities with other types of investments and by promoting productive activities through:

- a. the Local Development Window aimed at accelerating the emergence of productive activities in the areas where transport conditions have been improved; and
- b. the Rural Infrastructure Pilot aimed at increasing in the Selected Provinces the efficiency and effectiveness of rural economic infrastructure investments through enhanced coordination and promotion of greater complementarities between sectors, as well as through works on rural roads segments as prioritized under the Rural Infrastructure Plans.

Component 4. Project Management

Supporting *Provias Descentralizado* in its day-to-day management of the Project, through:

- a. the provision of technical advisory services for monitoring, evaluation and audits, including the updating or expansion of SIGAT and related training activities, mid-term and final impact evaluation studies and technical, operational, environmental and social auditing activities to be performed during Project implementation; and
- b. administrative and operational support.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. To facilitate the coordination of Project implementation, the Borrower agrees to and shall abide by the following:

1. the obligation of the Borrower (through MEF) to make the proceeds of the Loan as well as other adequate resources for the Project available to MTC and to *Provias Descentralizado*;
2. the obligation of the Borrower (through MTC) to: (i) carry out the Project with due diligence and efficiency and in accordance with sound administrative, financial, engineering, public utility, social, cultural and environmental standards and in accordance with the provisions of this Agreement and of the Project Operational Manual; (ii) maintain adequate records to reflect, in accordance with sound accounting practices defined in this Agreement and in the Project Operational Manual, the operations, the resources and expenditures in respect of the Project; and (iii) maintain adequate reporting in accordance with the standards specified in this Agreement and in the Project Operational Manual;
3. the requirement that the goods and services needed for the Project and to be financed from the proceeds of the Loan shall be procured in accordance with the procedures set forth in Section III of this Schedule and in the Project Operational Manual;
4. the right of the Bank to inspect, by itself or jointly with the Borrower, if the Bank shall so request, the goods and services financed by the Loan under the Project, as well as the results achieved, the operations thereof and any relevant records and documents; and
5. the right of the Bank to obtain from the Borrower all information as the Bank shall reasonably request regarding the administration, operations and financial conditions of the activities and results financed by the Project.

B. The Borrower shall cause the Project to be carried out by MTC through *Provias Descentralizado* in accordance with this Agreement and the Project Operational Manual, including the Indigenous Peoples' Planning Framework, the Resettlement Policy Framework and the Environmental and Social Management Framework, and except as the Bank shall otherwise agree, shall not amend or waive or fail to enforce any provision of said documents without the Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail.

C. The Borrower through MTC shall appoint no later than two months after the Effective Date, and thereafter maintain within *Provias Descentralizado* until the completion of the execution of the Project, competent staff in charge of Project implementation in adequate numbers in accordance with the staffing plan in the Project Operational Manual with adequate and satisfactory qualifications and experience.

D. The Borrower through *Provias Descentralizado* shall maintain, until the completion of the execution of Component 3.b. of the Project, the Coordination Group which shall meet at least annually.

E. The Borrower through *Provias Descentralizado* shall: (a) enter into and thereafter implement each Participating Agreement and each Financing Agreement; (b) exercise its rights and carry out its obligations under each Participating Agreement and Financing Agreement in such a manner as to protect the interests of the Borrower and of the Bank and to accomplish the purposes of Components 1 and 3.b. of the Project; (c) cause each Selected Municipality, Selected PRI and Selected PII, respectively to carry out their obligations under each Participating Agreement and Financing Agreement in such a manner as to protect the interests of the Borrower and of the Bank and to accomplish the purposes of Components 1 and 3.b. of the Project; and (d) except as the Bank shall otherwise agree, not assign, amend, abrogate, repeal, terminate, waive or fail to enforce any Participating Agreement and Financing Agreement or any substantial provision thereof. In case of any conflict between the terms of said Participating Agreements or Financing Agreements and those of this Agreement, the terms of this Agreement shall prevail.

F. The Borrower through *Provias Descentralizado* shall: (a) prior to the submission of the Loan withdrawal application for the respective Project activities under Categories (1) and (3) (b) of the table under Section IV.A. below, enter into a Financing Agreement in form and substance acceptable to the Bank and in accordance with paragraph 5 above; (b) furnish to the Bank a report each year on November 30, starting on November 30, 2007, indicating and listing the existing Financing Agreements entered into; and (c) make said Financing Agreements available to the Bank upon request.

G. If, at any time, the Bank determines that any portion of the Loan proceeds was used for items improperly procured in violation of Section III to this Schedule and the Project Operational Manual or was not used for Eligible Expenditures, the Borrower shall refund any such portion to the Bank as the Bank shall specify by notice to the Borrower.

H. The Borrower, through MTC, shall cause *Provias Descentralizado* to: (a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles by independent auditors acceptable to the Bank; (b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit 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 said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) The Borrower, through MTC, shall cause *Provias Descentralizado* to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the performance indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

Performance Indicators	Target Date: End of the Project
1. Number of km of rural roads rehabilitated	3,000
2. Number of km of rural roads receiving periodic maintenance at Project standards	11,200
3. Number of km of non-motorized tracks improved	2,650
4. Number of bridges rehabilitated or improved and maintained	50
5. Number of private and community productive activities financed and implemented through the Local Development Window / number of said activities identified and assessed.	50/200
6. Number of Rural Infrastructure Plans prepared and approved	15
7. Number of Selected PIIs under the Rural Infrastructure Pilot	15
8. Number of Selected Provinces where rural infrastructure investments prioritized by Rural Infrastructure Plans have been implemented	15
9. Amount of resources (in US\$) dedicated by Provincial Municipalities and District Municipalities to rural transport activities as described in the executed Financing Agreements	75 million

Performance Indicators	Target Date: End of the Project
10. Number of Selected PRIs and Selected PIIs	150
11. Number of Participatory Provincial Road Plans approved	150
12. Number of qualified micro-enterprises delivering quality routine maintenance whose creation has been promoted through the Project	120
13. Number of one-year equivalent permanent unskilled jobs generated by micro-enterprises	1,400

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than September 30, 2012.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through MTC, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower, through MTC, shall prepare and furnish to the Bank not later than forty five days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods, works and non-consultant services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement, and with the provisions of this Schedule.

2. Consultants' Services. All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the

requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Works, Goods and Non-Consultants' Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, works, goods and non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for works, goods and non-consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Force Account
(e) Community Participation

The procurement of works, goods and non-consultant services following the above procurement methods will be made using standard bidding documents and procedures agreed with the Bank and subject to the provisions of paragraph E below.

C. Particular Methods of Procurement of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. Other Methods of Procurement of Consultants' Services. The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Selection based on Consultants' Qualifications
(b) Selection under a Fixed Budget
(c) Least Cost Selection
(d) Single-source Selection
(e) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Procedures for the selection of Service Delivery Contractors as per the Procurement Plan

The procurement of consultants' services following the above procurement methods will be made subject to the provisions of paragraph E below.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

E. Special Provisions

1. In addition and without limitation or restriction to any other provisions set forth in this Section or the Procurement Guidelines, the following provisions shall govern the procurement of works, goods and non-consultant services under this Section:

- (a) No reference value shall be required for publication in the bidding documents.
- (b) Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
- (c) The Borrower, through MTC, shall utilize standard bidding documents satisfactory to the Bank.
- (d) Foreign bidders shall not be required to legalize their bids or any documentation related to such bids with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participate in the bidding process.
- (e) There will be no prescribed minimum number of bids submitted for a contract to be subsequently awarded.

2. In addition and without limitation or restriction to any other provisions set forth in this Section or the Consultant Guidelines, the following provisions shall govern all employment of consultants:

- (a) Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
- (b) 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 participate in the selection process.
- (c) No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.
- (d) Foreign consultants, either individuals or firms, shall not be required to pay fees to the Peruvian Consultants' Association that are different from those required for Peruvian consultants.
- (e) No consultant financed out of the proceeds of the Loan shall, at the time he or she is carrying out his or her contractual obligations as consultant, hold civil service office or any other position in any agency of the Borrower, nor shall such consultant have any right to re-entry into any such office or position upon the conclusion of his or her consulting services.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of: (a) Article II of the General Conditions; (b) this Section; and (c) such additional instructions as the Bank may specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Goods, works and consultants' services for Component 1 of the Project	35,700,000	85%
(2) Goods and consultants' services for Component 2 of the Project	6,200,000	85%
(3) Goods, Works and consultants' services for: (a) Component 3.a of the Project; and (b) Component 3.b of the Project	500,000 3,500,000	85%
(4) Goods and consultants' services for Component 4.a of the Project	1,000,000	85%
(5) Unallocated	3,100,000	
(6) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(7) Premium for Interest Rate Caps and Collars	0	Amount payable pursuant to Section 2.08 (c) of this Agreement in accordance with Section 4.04 of the General Conditions
TOTAL AMOUNT	50,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

(a) from the Loan Account until the Bank has received payment in full of the Front-end Fee, if the Borrower selects not to capitalize the Front-end Fee;

(b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$2,500,000 equivalent may be made for payments made during the twelve months immediately before this date but on or after June 1, 2006, for Eligible Expenditures under Categories (1) through (3);

(c) under Category (1) unless at least one Participating Agreement and one Financing Agreement, different from those mentioned in subparagraph (d) below, have been executed in form and substance satisfactory to the Bank; and

(d) under Category (3) (b) unless at least one Participating Agreement and one Financing Agreement, different from those mentioned in subparagraph (c) above, have been executed in form and substance satisfactory to the Bank.

2. The Closing Date is March 31, 2012.

Section V. Other Undertakings

The Borrower shall cause *Provias Descentralizado* to:

A. no later than six months after the Effective Date, appoint the independent auditors as referred to in Section II.B.3 above; under terms of reference and with qualifications and experience satisfactory to the Bank;

B. no later than twelve months after the Effective Date, hire the procurement auditors as referred to in Section I.H above, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III above;

C. later than twelve months after the Effective Date, submit to the Bank for its review and comments a plan describing the proposed organization of *Provias Descentralizado* by 2011 and its action plan for 2007-2011;

D. no later than twelve months after the Effective Date, submit to the Bank for its review and comments a copy of the minutes of the Coordination Group in which the output for the first nine Rural Infrastructure Plans will be discussed;

E. no later than twenty four months after the Effective Date, submit to the Bank for its review and comments a report on the situation, efficiency and sustainability of routine road maintenance activities with micro-enterprises on the roads rehabilitated under the Rural Roads Project and the Second Rural Roads Project; and

F. no later than thirty six months after the Effective Date, submit to the Bank for its review and comments a copy of the minutes of the Coordination Group in which the Rural Infrastructure Pilot under Component 3.b. of the Project is evaluated and options for scaling it up are discussed.

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 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)
February 15, 2017	33.33%
August 15, 2017	33.33%
February 15, 2018	33.34%

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.
5. If the Withdrawn Loan Balance is 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.

APPENDIX

Section I. Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Co-financier” means the Inter-American Development Bank.
3. “Co-financing” means an amount of fifty million dollars (US\$50,000,000) to be provided by the Co-financier to assist in financing the Project.
4. “Co-financing Agreement” means the agreement to be entered into between the Borrower and the Co-financier providing for the Co-financing.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
6. “Coordination Group” means a forum in charge of overall supervision of Component 3.b of the Project coordinated by *Provias Descentralizado* and comprising, *inter alia*, representatives from MEF and the ministries in charge of transportation, sanitation, electrification, irrigation and communication.
7. “Decentralized Rural Roads Framework” means the framework designed to improve the decentralized management of rural roads in the Borrower’s territory and set forth or referred to in the letter dated October 31, 2006 from the *Provias Descentralizado* to the Bank (*Oficio* No. 562-2006-MTC/21).
8. “District Municipality” means a local subdivision within a Province in the Borrower’s territory established and operating under the Borrower’s Organic Law No. 27972, dated May 27, 2003.
9. “Environmental and Social Management Framework” means the document published and available to the public on the website www.mtc.gob.pe, dated September 2, 2006 and outlining social and environment preservation implementation procedures, mitigation measures and monitoring procedures under the Project as well as for the handling of chance finding of cultural property goods; as said plan may be amended from time to time with the Bank’s prior approval.
10. “Financing Agreement” means an agreement (*Convenio de Financiamiento*), in form and substance satisfactory to the Bank, to be executed among *Provias Descentralizado* on the one hand and Provincial Municipalities, interested District Municipalities within a Selected Province as well as Selected PIIs and Selected PRIs on the other hand for the implementation of Components 1 and 3.b. of the

- Project and for other efficient rural transport activities, all in form and substance satisfactory to the Bank.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
 12. “Indigenous Peoples’ Planning Framework” means the document published and available to the public on the website www.mtc.gob.pe, dated August 23, 2006 and outlining implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under the Project; as said plan may be amended from time to time with the Bank’s prior approval.
 13. “Local Development Window” means an initiative to identify and promote private and community productive activities complementing the improvement of transport conditions in poor Provinces as initiated under the Second Rural Road Project and as established and operating under the Project Operational Manual.
 14. “MEF” means the Borrower’s Ministry of Economy and Finance.
 15. “MTC” means the Borrower’s Ministry of Transport and Communications.
 16. “Participating Agreement” means an agreement (*Convenio de Adhesión*), in form and substance satisfactory to the Bank, to be executed among *Provias Descentralizado* on the one hand and Provincial Municipalities and, as needed, a majority of interested District Municipalities within a Selected Province on the other hand for the implementation of Components 1 and 3.b. of the Project, all in form and substance satisfactory to the Bank.
 17. “Participatory Provincial Road Plans” means a document prepared in a participatory manner for the planning of rural roads in each Province as provided under the Project Operational Manual.
 18. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
 19. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated November 2, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
 20. “Project Operational Manual” means the operational manual for the Project, satisfactory to the Bank to be adopted through a Directorial Resolution of *Provias Descentralizado*, which shall contain, *inter alia*: (i) the terms of reference, functions and responsibilities for the personnel of *Provias Descentralizado* in charge of daily Project management, coordination, monitoring and evaluation; (ii) the criteria, detailed rules and procedures for the selection of the Selected Provinces, Selected Municipalities, Selected PRIs and Selected PIIs; (iii)

- procedures for procurement of works, goods and services, as well as for financial management and audits (i.e. financial audit and procurement audit) of the Project; (iv) the indicators and the methodology to be used in the monitoring and evaluation of the Project; (v) flow and disbursement arrangements of Project funds; (vi) model forms for Participating Agreements and Financing Agreements; (vii) guidelines for participatory road planning and rural economic infrastructure planning; (viii) the ministerial resolutions approving the administrative organization of, and the staffing plan for, *Provias Descentralizado*; (ix) the Indigenous Peoples' Planning Framework; (x) the Resettlement Policy Framework; and (xi) the Environmental and Social Management Framework.
21. “*Provias Descentralizado*” means “*Proyecto Especial de Infraestructura de Transporte Descentralizado*”, the Project implementing unit within the Vice Ministry of Transports of MTC.
 22. “*Provias Descentralizado*’s Legislation” means the Borrower’s Supreme Decree No. 029-2006-MTC, dated August 10, 2006 and published on August 12, 2006.
 23. “Province” means a territorial subdivision in the Borrower’s territory under the jurisdiction of a Provincial Municipality and including two or more District Municipalities as established and operating under Article 3, Title I of the Borrower’s Organic Law No. 27972, dated May 27, 2003.
 24. “Provincial Municipality” means a local subdivision with jurisdiction over the respective Province in the Borrower’s territory established and operating under the Borrower’s Organic Law No. 27972, dated May 27, 2003.
 25. “PII” or “Provincial Infrastructure Institute” means an institute in the Borrower’s territory established and operating under its respective Municipal Ordinance.
 26. “PRI” or “Provincial Road Institute” means an institute in the Borrower’s territory established and operating under its respective Municipal Ordinance.
 27. “Resettlement Policy Framework” means the document published and available to the public on the website www.mtc.gob.pe, dated August, 23, 2006 and outlining implementation procedures, mitigation measures and monitoring procedures for involuntary resettlement under the Project; as said plan may be amended from time to time with the Bank’s prior approval.
 28. “Rural Infrastructure Pilot” means an initiative aiming at increasing in the Selected Provinces the efficiency and effectiveness of economic rural infrastructure investments in transport, sanitation, electrification, irrigation and communication through enhanced coordination and promotion of greater complementarities between sectors, as provided under the Project Operational Manual.

29. “Rural Infrastructure Plans” means a planning instrument prepared by Provincial Municipalities and District Municipalities to prioritize rural economic infrastructure investments, based on the economic potential of Selected Provinces as provided under the Project Operational Manual.
30. “Rural Roads Project” means the project described in Annex 2 to the Loan Agreement No. 3962-PE executed between the Borrower and the Bank on December 7, 1995.
31. “Second Rural Roads Project” means the project described in Annex 2 to the Loan Agreement No. 4614-PE executed between the Borrower and the Bank on June 26, 2001.
32. “Selected Municipality” means a Provincial Municipality or District Municipality in the Borrower’s territory that has met to the Bank’s satisfaction the selection criteria set forth in the Project Operational Manual.
33. “Selected PII” means each and all selected Provincial Infrastructure Institutes in the Borrower’s territory that have met to the Bank’s satisfaction the selection criteria set forth in the Project Operational Manual and have executed a Financing Agreement for the implementation of Components 1 and 3.b of the Project.
34. “Selected PRI” means each and all selected Provincial Road Institutes in the Borrower’s territory that have met to the Bank’s satisfaction the selection criteria set forth in the Project Operational Manual for the implementation Components 1 and 3.b of the Project.
35. “Selected Province” means each of at least fifteen Provinces in the Borrower’s territory that has met to the Bank’s satisfaction the selection criteria set forth in the Project Operational Manual and has executed a Financing Agreement for the execution of the Rural Infrastructure Pilot under Component 3.b of the Project.
36. “SIGAT” means *Sistema Integrado de Gestión Administrativa y Técnica*, an integrated system for technical and administrative management used by *Provias Descentralizado* to monitor Project implementation.