

**CONFORMED COPY**

**LOAN NUMBER 7142-PE**

# **Loan Agreement**

**(National Rural Water Supply and Sanitation Project - PRONASAR)**

**between**

**REPUBLIC OF PERU**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated September 13, 2002**

**LOAN NUMBER 7142-PE**

**LOAN AGREEMENT**

AGREEMENT, dated September 13, 2002 between REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) on July 15, 1994, the Borrower's Congress passed Law No. 26338 (the General Sanitation Services Law) that sets forth the Borrower's strategy and policy for its water supply and sanitation sector;

(C) on August 6, 1984, the Borrower's Congress passed Law No. 23853 (the Municipal Organic Law) that establishes the responsibilities of District Municipalities (as hereinafter defined) in connection with rural water supply and sanitation services within their respective jurisdictions; and

(D) the Borrower intends to contract from the Canadian International Development Agency (CIDA) a grant (the CIDA Grant) in an amount equivalent to five million Dollars (\$5,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the CIDA Grant Agreement) to be entered into between the Borrower and CIDA;

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

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Annual Implementation Program" means any of the programs referred to in Section 3.11 (a) (i) of this Agreement;

(b) "Autonomous Entity" means any cooperative or State company specialized in the provision of water supply and sanitation services operating under the laws of the Borrower;

(c) "Community" means any rural community in the territory of the Borrower that meets the eligibility criteria set forth in the Operational Manual (as hereinafter defined);

(d) "Community Subproject" means any investment subproject for the benefit of Communities to be carried out under Parts A.1, A.2 and B.2 of the Project;

(e) “Delegation Agreement” means any of the agreements referred to in Section 3.08 (b) (ii) of this Agreement;

(f) “DGSR” means *Dirección General de Saneamiento Rural*, the Borrower’s Rural Water Supply and Sanitation Directorate within VMCS (as hereinafter defined);

(g) “District Municipality” means *Municipalidad Distrital*, any of the political subdivisions of the territory of the Borrower established pursuant to paragraph 3 of Article 4 of the Municipal Organic Law;

(h) “District Municipality Agreement” means any of the agreements referred to in Section 3.08 (b) (i) of this Agreement;

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

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

(k) “Expanded Project Area” means the Initial Project Area (as hereinafter defined) and the area comprised by the Borrower’s Departments of Amazonas, Ancash, Cajamarca, Cusco, Loreto, Madre de Dios, Puno and Ucayali, and any other Department which may be acceptable to the Bank in addition to, or in substitution of, the above Departments;

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

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

(n) “FONCODES Agreement” means the agreement referred to in Section 3.04 of this Agreement;

(o) “FONCODES Environmental Guidelines” means the environmental guidelines of FONCODES for Community Subprojects set forth in Executive Director Resolution 073-99-FONCODES-DE dated July 16, 1999;

(p) “Initial Project Area” means the area comprised by the Borrower’s Departments of Apurímac, Arequipa, Ayacucho, Huancavelica, Huanuco, Junín, Lima Pasco, and Piura;

(q) “JASS” means *Junta Administradora de Servicios de Saneamiento*, any Community users’ association of water supply and sanitation services (with legal personality) operating in the Initial Project Area or in the Expanded Project Area;

(r) “MVCS” means *Ministerio de Vivienda, Construcción y Saneamiento*, the Borrower’s Ministry of Housing, Construction and Sanitation;

(s) “NE” means *Núcleo Ejecutor*, any Project executing nucleus, including Communities, that is selected by FONCODES for the implementation of Part A of the Project, in

accordance with criteria set forth in the Operational Manual (as hereinafter defined);

(t) “NE Agreement” means any of the agreements referred to in Section 3.08 (a) of this Agreement;

(u) “NGO” means any non-governmental organization (with legal personality) operating in the territory of the Borrower;

(v) “*Nuevo Sol*” and “*Nuevos Soles*” means the Borrower’s currency;

(w) “Operational Manual” means the Project operational manual referred to in Section 3.10 (a) of this Agreement;

(x) “OR” means *Operador Regional*, any Project regional operator, including NGOs and private firms, that is selected by FONCODES for the implementation of Part A of the Project, in accordance with criteria set forth in the Operational Manual;

(y) “OR Agreement” means any of the agreements referred to in Section 3.07 (b) of this Agreement;

(z) “OR Model” means FONCODES OR model for the implementation of Community Subprojects set forth in the Operational Manual;

(aa) “OS” means *Operador Social*, any Project social operator, including NGOs and private firms, that is selected by FONCODES for the implementation of Part A of the Project, in accordance with criteria set forth in the Operational Manual;

(bb) “OS Agreement” means any of the agreements referred to in Section 3.07 (a) of this Agreement;

(cc) “Performance Indicators” means the Project performance indicators set forth in the letter from the Borrower to the Bank of even date herewith (Supplemental Letter No. 1);

(dd) “PMU” means the Project management unit referred to in Section 3.03 (a) (ii) of this Agreement;

(ee) “Procurement Strengthening Action Plans” means the VMCS’s (as hereinafter defined) and FONCODES’s procurement strengthening action plans for Project implementation set forth in the Operational Manual;

(ff) “Social Principles and Guidelines” means the social principles and guidelines for the Project set forth in the letter from the Borrower to the Bank of even date herewith (Supplemental Letter No. 2);

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

(hh) “Steering Committee” means the Project steering committee referred to in Section 3.03 (a) (i) of this Agreement;

(ii) “TM Model” means FONCODES traditional-improved model for the implementation of Community Subprojects set forth in the Operational Manual; and

(jj) “VMCS” means *Viceministerio de Construcción y Saneamiento*, the Borrower’s Vice Ministry of Construction and Sanitation within MVCS.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed a reference to VMCS.

## **ARTICLE II**

### **The Loan**

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to fifty million Dollars (\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

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

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such Loan amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through VMCS, with the collaboration of FONCODES, with due diligence and efficiency and in conformity with appropriate engineering, managerial, technical, financial, social and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation or restriction to the provisions of paragraph (a) above, the Borrower shall carry out the Project in accordance with: (i) the Social Principles and Guidelines; and (ii) the Procurement Strengthening Action Plans.

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

Section 3.03. (a) At all times during the execution of the Project, the Borrower (through VMCS) shall maintain:

- (i) a Project steering committee with membership structure and

responsibilities satisfactory to the Bank, including the following responsibilities: (A) to review Project implementation reports and audits; and (B) to approve the Operational Manual, each Annual Implementation Program, and any modification thereof; and

- (ii) a Project management unit within VMCS responsible for overall Project planning, coordination, supervision, monitoring and evaluation, including: (A) preparing Annual Implementation Programs; (B) issuing Project implementation guidelines on priorities in targeted regions and viable packaging of contracts; (C) providing training and guidance to ORs and OSs; (D) maintaining the Project impact monitoring system; (E) preparing procurement plans, terms of reference and short lists for consultants' services; and (F) supervising the procurement processes of FONCODES.

(b) The Borrower shall ensure that PMU is staffed, at all times during the execution of the Project, by core professional staff in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank, and selected in accordance with competitive and transparent procedures satisfactory to the Bank, all as prescribed in the Operational Manual.

Section 3.04. With regard to Parts A and D.2 of the Project, the Borrower (through VMCS) shall enter into an agreement with FONCODES, under terms and conditions satisfactory to the Bank, for the purposes of ensuring the collaboration of FONCODES in the implementation of such Parts of the Project, said agreement to provide, inter alia:

(a) the transfer to FONCODES of the portion of the proceeds of the Loan and the counterpart funding required for the implementation of Parts A and D.2 of the Project;

(b) the obligation of FONCODES to collaborate in the implementation of Parts A and D.2 of the Project in accordance with:

- (i) the Operational Manual; and

- (ii) the applicable Annual Implementation Program; and

(c) the following functions and responsibilities of FONCODES:

- (i) procurement of the goods, works and consultants' services for Parts A and D.2 of the Project; and

- (ii) in the case of Community Subprojects to be implemented under the TM Model, initial promotion, feasibility assessments, design evaluation, and

construction supervision, through FONCODES regional offices.

Section 3.05. The Borrower (through VMCS), shall exercise its rights and comply with its obligations under the FONCODES Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive or fail to enforce the FONCODES Agreement or any provision thereof.

Section 3.06. (a) Prior to the approval of any proposed Community Subproject, the Borrower (through VMCS), shall ensure that FONCODES applies the FONCODES Environmental Guidelines, in order to:

- (i) carry out an environmental screening and assessment of such proposed Community Subproject; and
- (ii) prepare recommendations for the prevention, mitigation and remediation of any potential environmental damage arising from the implementation of such proposed Community Subproject.

(b) During the implementation of any Community Subproject, the Borrower (through VMCS) shall ensure that FONCODES carries out the recommendations of the environmental assessment referred to in subparagraph (a) (i) above as prescribed in the Operational Manual.

Section 3.07. With respect to Part A of the Project, the Borrower (through VMCS) shall cause FONCODES to enter into agreements with:

(a) OSs, under terms and conditions satisfactory to the Bank, for the purposes of ensuring the cooperation of such OSs in the implementation of such Part of the Project by providing continuous organization, training and education services to NEs for the carrying out of Community Subprojects under the TM Model; and

(b) ORs, under terms and conditions satisfactory to the Bank, for the purposes of ensuring the cooperation of such ORs in the implementation of such Part of the Project by providing the following services for the carrying out of Community Subprojects under the OR Model:

- (i) to NEs, JASSs and Communities: (A) initial promotion; (B) feasibility assessments; (C) water and sanitation systems design; (D) training (including management, operation and maintenance of water and sanitation systems, health and hygiene education) and community promotion; (E) technical assistance during self-construction; and (F) ex-post technical support;
- (ii) to FONCODES regional offices: (A) design evaluation; (B)



construction supervision; and (C) hygiene education supervision; and

- (iii) to District Municipalities: (A) participation in the promotion and supervision of the execution of Community Subprojects; (B) training on monitoring and control of Community Subprojects; and (C) training in connection with the provision of technical assistance and supervision services to JASSs.

Section 3.08. (a) With respect to Part A of the Project, the Borrower (through VMCS) shall cause FONCODES to enter into agreements with NEs, under terms and conditions satisfactory to the Bank, for the purposes of ensuring the participation of such NEs in the implementation of such Part of the Project, with the cooperation of OSs or ORs, by carrying out:

- (i) pre-investment activities, including social and technical design of water supply and sanitation systems, and establishment of JASSs;
- (ii) investment activities, including the opening of separate deposit accounts for the transfer of Project resources to cover the cost of materials, skilled and unskilled labor, as well as ensuring the application of the FONCODES Environmental Guidelines in the carrying out of any civil work under Part A of the Project; and
- (iii) post-investment activities, including technical assistance to JASSs for the operation and maintenance of their respective water supply and sanitation systems, and participatory evaluations.

(b) With respect to Part B of the Project, the Borrower (through VMCS) shall:

- (i) enter into agreements with District Municipalities, under terms and conditions satisfactory to the Bank, for the purposes of ensuring the participation of such Municipalities in the implementation of such Part of the Project, including the obligation of each such District Municipality to monitor the application of the FONCODES Environmental Guidelines by private operators or autonomous agencies in the carrying out of any civil work under Part B.2 of the Project; and
- (ii) pursuant to the provisions of each such District Municipality Agreement ensure that District Municipalities enter into agreements with private operators or Autonomous Entities, under terms and conditions satisfactory to the Bank, for the purposes of delegating the provision of water supply and sanitation services, including the obligation of each such private operator or Autonomous Entity to apply the FONCODES Environmental Guidelines in the carrying out of any civil work under Part B.2 of the Project.

Section 3.09. The Borrower (through VMCS) shall ensure that FONCODES and the District Municipalities exercise their respective rights and carry out their respective obligations under each Delegation Agreement, District Municipality Agreement, NE Agreement, OR Agreement and OS Agreement (as the case may be) in such a manner as to protect the interests of

the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower (through VMCS) shall ensure that FONCODES and the District Municipalities do not assign, amend, abrogate, waive or fail to enforce any Delegation Agreement or any District Municipality Agreement or any NE Agreement or any OR Agreement or any OS Agreement or any provision thereof (as the case may be).

Section 3.10. (a) The Borrower (through VMCS) shall carry out the Project in accordance with an operational manual, satisfactory to the Bank, said manual to provide the rules and procedures for the implementation of the Project, in the areas of:

- (i) Project institutional setup, including organization and functions of VMCS and FONCODES;
- (ii) disbursement, accounting, auditing and reporting procedures;
- (iii) procurement responsibilities, processes and internal controls;
- (iv) monitoring and evaluation plans for the Project; and
- (v) Community Subprojects cycle, including pre-investment, investment and post-investment activities, roles and responsibilities of VMCS, FONCODES, District Municipalities, NEs, ORs and OSs, eligibility and cost-recovery requirements.

(b) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall govern.

Section 3.11. (a) The Borrower (through PMU) shall:

- (i) not later than November 30 of each year during Project implementation, furnish to the Bank, for its review and approval, an annual implementation program for the following calendar year, such program to specify: (A) the activities to be financed out of the proceeds of the Loan during such calendar year; and (B) the required financial and human resources; and
- (ii) upon the Bank's approval, carry out such Annual Implementation Program in accordance with its terms.

(b) The Bank may refrain from approving any Annual Implementation Program if the Bank has determined that the Borrower is not carrying out the Project as provided in this Agreement and no appropriate remedial actions, satisfactory to the Bank, have been taken therefor.

Section 3.12. The Borrower (through PMU) shall:

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

(b) not later than February 15 and August 15 of each year of Project implementation, starting in August 15, 2003, furnish to the Bank progress reports on the execution of the Project during the preceding calendar semester, of such scope and in such detail as the Bank may reasonably request.

Section 3.13. The Borrower (through PMU) shall:

(a) not later than October 1 of each year of Project implementation, starting in October 1, 2003, hold a Project annual review with the Bank, such review to be based on the reports referred to in Section 3.12 (b) of this Agreement; and

(b) if, as a result of any of the above reviews, the Bank shall have reasonably determined that the progress in the execution of the Project or in the achievement of its objectives is not satisfactory, promptly take or cause to be taken all such remedial action, satisfactory to the Bank, as shall be necessary for the efficient execution of the Project or the timely achievement of its objectives.

Section 3.14. With regard to Part A of the Project, the Borrower (through PMU) shall:

(a) not later than September 30, 2003, contract physical audits for each year of Project implementation, with independent auditors of experience and qualifications satisfactory to the Bank operating under terms of reference satisfactory to the Bank, such audits to focus on a sample of Community Subprojects, so as to review individual contracts, ascertain compliance with their terms and conditions, inspect physical progress of civil works and reconcile it with financial expenses incurred, and verify compliance with FONCODES Environmental Guidelines;

(b) not later than December 31 of each year of Project implementation, starting December 31, 2003, furnish to the Bank the report of such audits by said auditors; and

(c) not later than March 30 of each year of Project implementation, discuss the results of such audits with representatives of District Municipalities and Communities and NGOs involved in Project activities, taking into account the Bank's comments thereon.

Section 3.15. The Borrower (through PMU) shall:

(a) not later than March 30, 2005, contract impact evaluation studies with independent consultants of experience and qualifications satisfactory to the Bank, operating under terms of reference satisfactory to the Bank, such studies to assess overall Project progress and outcomes, with emphasis on educational and health aspects;

(b) not later than September 30, 2006, furnish to the Bank, for its review and comments, the findings and recommendations of each such study by said consultants; and

(c) not later than September 30, 2006, review with Communities, District

Municipalities and NGOs involved in Project activities, the results of each such impact evaluation study taking into account the Bank's comments thereon.

Section 3.16. With regard to Part A of the Project, the Borrower (through VMCS) shall cause FONCODES to:

(a) not later than January 2, 2003 start: (i) the implementation of such Part of the Project in the Initial Project Area, under the TM Model; and (ii) the implementation of a pilot of the OR Model in the Initial Project Area;

(b) not later than January 31, 2004, furnish to the Bank (for its review and approval), a report on the implementation of such Part of the Project in the Initial Project Area and the performance of the pilot of the OR Model, and a recommendation on the expansion of the implementation of such Part of the Project to the Expanded Project Area under the OR Model; and

(c) upon the Bank's approval of the report and recommendation referred to in paragraph (b) above, expand the implementation of Part A of the Project to the Expanded Project Area.

Section 3.17. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower (through PMU) shall:

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

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

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower (through VMCS), shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower (through VMCS) shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six

(6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including as a part of the information to be provided in each such report a management letter concerning internal controls; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of FMRs or statements of expenditure, the Borrower (through VMCS) shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the FMRs or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.12 (b) of this Agreement, the Borrower (through VMCS) shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

(b) The first FMR shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from

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

## **ARTICLE V**

### **Remedies of the Bank**

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

(a) The General Sanitation Services Law or the Municipal Organic Law or any provision thereof shall have 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.

(b) The CIDA Grant Agreement shall have failed to become effective by not later than January 31, 2003 or such later date as the Bank may agree; provided, however, that the provisions of this paragraph 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.

- (c) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the CIDA Grant shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the CIDA Grant Agreement; and
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:
- (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the CIDA Grant 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.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur.

## **ARTICLE VI**

### **Effective Date; Termination**

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

- (a) that the Steering Committee shall have been established;
- (b) that the FONCODES Agreement shall have been entered into;
- (c) that the Operational Manual shall have been approved; and
- (d) (i) that financial management arrangements, satisfactory to the Bank, shall have been established by VMCS and FONCODES and become operational; and (ii) that the selection process of the independent auditors referred to in Section 4.01 (b) (i) of this Agreement shall have started.

Section 6.02. The date December 12, 2002, is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Facsimile:

(511) 426-8500 or  
 (511) 426-9822

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)      (202) 477-6391  
 64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the 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/ James D. Wolfensohn  
Authorized Representative

HONORARY WITNESS

/s/ Alejandro Toledo  
President of the Republic of Peru

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Loan**

Part A: General

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

<u>Category</u>	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be <u>Financed</u>
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(1)	Goods and works for Community Subprojects	19,300,000	60%
(2)	Works (other than those for Community Subprojects)	3,000,000	60%
(3)	Goods (other than those for Community Subprojects)	500,000	100% of foreign expenditures; 80% of local expenditures
(4)	Consultants' services	26,700,000	80%
(5)	Fee	500,000	Amounts due under Section 2.04 of this Agreement
	TOTAL	<u>50,000,000</u>	

2. For purposes of this Schedule the terms:

(a) "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower; and

(b) "local expenditures" means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed \$5,000,000, may be made in respect of Categories (1) through (4) of the table set forth in Part A.1 of this Schedule, on account of payments made for expenditures within twelve months immediately before that date (but in no case before July 18, 2002).

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for:

(a) works (other than works for Community Subprojects) under contracts estimated to cost less than \$250,000 equivalent;

(b) goods (other than goods for Community Subprojects) under contracts estimated to cost less than \$250,000 equivalent;

(c) services provided by consulting firms under contracts estimated to cost less than \$100,000;

(d) services provided by individual consultants under contracts estimated to cost less than \$50,000; and

(e) goods and works for Community Subprojects,

under such terms and conditions as the Bank shall specify by notice to the Borrower.

Part B: Special Account

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

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

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

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

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

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

(a) if the Bank determines at any time that any FMR does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

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

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

respect to which withdrawals were made on the basis of FMRs.

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

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment.

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

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

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

**Annex A  
to  
SCHEDULE 1**

**Operation of Special Account  
When Withdrawals Are Not Made  
On the Basis of FMRs**

1. For the purposes of this Annex the term “Authorized Allocation” means an amount of \$3,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$1,000,000 until the aggregate amount of withdrawals from the Loan Account, plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal or exceed \$4,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the

Special Account shall be made as follows:

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

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

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

**Annex B**  
**to**  
**SCHEDULE 1**

**Operation of Special Account**  
**When Withdrawals Are Made**  
**On the Basis of FMRs**

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

2. Each application for withdrawal from the Loan Account for deposit into the Special Account shall be supported by a FMR.

3. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank

shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the FMR accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said FMR to be remaining in the Special Account, shall not exceed \$5,000,000.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to increase the sustainable use of water supply and sanitation facilities in rural areas and small towns in the territory of the Borrower while emphasizing improvements in hygiene practices and training in operation and maintenance.

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

#### Part A: Water Supply and Sanitation in Rural Areas

##### 1. Rehabilitation and Expansion of Water Supply and Sanitation Systems

Rehabilitation and expansion of piped water supply and sanitation systems for approximately 750,000 people in approximately 2,500 Communities, and provision of on-site sanitation services for approximately 300,000 people in rural areas.

##### 2. Construction of Water Supply and Sanitation Systems

Construction of water supply and sanitation systems, and provision of on-site sanitation services for approximately 125,000 people in approximately 600 Communities, including piped networks with house connections and/or multi-family taps, improved point sources and non-conventional technologies.

##### 3. Technical Assistance to District Municipalities and Communities

Provision of technical assistance, through ORs and OSs, to:

(a) JASSs, by: (i) posting extension agents; and (ii) providing training in the areas of accounting, system repair and hygiene education; and

(b) District Municipalities for the purposes of long-term administrative and technical support to JASSs.

#### Part B: Water Supply and Sanitation in Small Towns

1. Provision of technical assistance to District Municipalities for the purposes of delegating the provision of water supply and sanitation services to private operators or Autonomous Entities.

2. Rehabilitation, improvement and expansion of water supply and sanitation systems in approximately 12 District Municipalities that have entered into Delegation Agreements, including household latrines and other appropriate sanitation solutions.

#### Part C: Capacity Building

##### 1. Institutional Strengthening of DGSR

Provision of technical assistance and training to strengthen DGSR as the rural water supply and sanitation sector leader, including the preparation of policy and sector studies.

2. Sector Information, Orientation and Accreditation Services

Provision of technical assistance and training to District Municipalities, ORs, contractors and skilled labor, including:

- (a) initial orientation and continuous strengthening of ORs;
- (b) accreditation of local professionals, and water supply and sanitation systems operators;
- (c) implementation of health and hygiene education campaigns;
- (d) analysis of existing sewerage systems in rural areas;
- (e) development of pilot micro-credit schemes for rural households to make in-house sanitation investments;
- (f) design of rural water supply and sanitation information systems;
- (g) evaluation of watershed protection issues on the basis of international and national best practices;
- (h) review of infrastructure design standards and norms for rural water supply and sanitation service provision; and
- (i) determination of household water consumption patterns.

Part D: Project Management

- 1. Operation of PMU, including external audits, and monitoring and evaluation systems.
- 2. Provision of technical assistance and logistical support to FONCODES regional offices.

\* \* \*

The Project is expected to be completed by June 30, 2008

**SCHEDULE 3**

**Amortization Schedule**

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

Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each January 15 and July 15 Beginning January 15, 2011 through January 15, 2016	8.33%
On July 15, 2016	8.37%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

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

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of subparagraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such subparagraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (a) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (b) if the Bank so determines in accordance with the Conversion Guidelines, the



exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

## **SCHEDULE 4**

### **Procurement**

#### Section I. Procurement of Goods and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Sections I and III of this Schedule.

##### Part B: International Competitive Bidding

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

##### Part C: Other Procurement Procedures

#### 1. National Competitive Bidding

Goods estimated to cost less than \$250,000 but more than \$75,000 equivalent per contract, and not exceeding in the aggregate \$400,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines

#### 2. Shopping

Goods estimated to cost \$75,000 equivalent or less per contract but more than \$30,000 equivalent per contract, and not exceeding in the aggregate: (a) \$100,000 equivalent (in the case of goods other than goods for Community Subprojects); and (b) \$20,000,000 equivalent (in the case of goods for Community Subprojects), may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$250,000 equivalent per contract but more than \$60,000 equivalent per contract, up to an aggregate amount not to exceed: (a) \$3,500,000 equivalent, in respect of Community Subprojects under Parts A.1 and A.2 of the Project; and (b) \$2,000,000 equivalent, in respect of Part B.2 of the Project, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

4. Community Participation

With respect to Community Subprojects:

- (a) goods estimated to cost \$30,000 equivalent or less per contract; and
- (b) works estimated to cost \$60,000 equivalent or less per contract;

and costing \$40,000,000 equivalent or less in the aggregate, shall be procured in accordance with procedures acceptable to the Bank, as prescribed in the Operational Manual.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

- (a) With respect to:
  - (i) each contract for goods to be procured in accordance with the procedures referred to in Part B above; and
  - (ii) the first contract for goods to be procured in accordance with the procedures referred to in Part C.1 above, the procedures set forth in

paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts to be procured in accordance with the procedures referred to in each of Parts C.2 and C.3 above, the following procedures shall apply:

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

### 3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

## Section II. Employment of Consultants

### Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section and Section III of this Schedule.

### Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services (other than external audits) estimated to cost \$100,000 equivalent per contract or less, and not exceeding in the aggregate \$1,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least-cost Selection

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

3. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines, and not exceeding in the aggregate \$2,400,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost \$100,000 equivalent or more, the procedures set forth in paragraphs 2, 3, and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract

shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III. Special Provisions

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

1. No reference value shall be required for publication in the bidding documents.
2. 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.
3. The Borrower shall utilize standard bidding documents satisfactory to the Bank.

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

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
  2. No reference value shall be required for publication in the proposal documents.
  3. No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.
  4. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participating in the selection process.
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