

CONFORMED COPY

LOAN NUMBER 4076-PE

Project Agreement

(Irrigation Subsector Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CORPORACION FINANCIERA DE DESARROLLO

Dated November 7, 1996

LOAN NUMBER 4076-PE

PROJECT AGREEMENT

AGREEMENT, dated November 7, 1996, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and CORPORACION FINANCIERA DE DESARROLLO (COFIDE).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Peru (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount of eighty-five million dollars (\$85,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that COFIDE agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by the Subsidiary Agreement to be entered into between the Borrower and COFIDE, a portion of the proceeds of the loan provided for under the Loan Agreement will be transferred to COFIDE on the terms and conditions set forth in the Subsidiary Agreement; and

(C) COFIDE, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) COFIDE declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) COFIDE undertakes that, unless the Bank shall otherwise agree, Subloans shall be made in accordance with the procedures and on the terms and conditions set forth in the Irrigation Project Credit Manual, which shall include the matters set forth in the Schedule to this Agreement.

(c) COFIDE shall exercise its rights in relation to each Subloan in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

(d) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. (a) COFIDE shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project.

(b) For the purposes of Section 9.08 of the General Conditions, and without limitation thereto, COFIDE, in coordination with PCU, shall:

- (i) 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 future operation of Part A the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with COFIDE on said plan.

Section 2.04. COFIDE shall duly perform all its obligations under the Subsidiary Agreement. Except as the Bank shall otherwise agree, COFIDE shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any provision thereof.

Section 2.05. (a) COFIDE shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Part A of the project, the performance of its obligations under this Agreement and under the Subsidiary Agreement, and other matters relating to the purposes of the Loan. Without limitation upon the generality of the foregoing, COFIDE shall participate in the evaluation referred to in Section 3.06 (c) of the Loan Agreement and shall thereafter promptly take, or cause to be taken, all such action, satisfactory to the Bank, as shall be necessary for the efficient execution of Part A of the Project.

(b) COFIDE shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Loan, or the performance by COFIDE of its obligations under this Agreement and under the Subsidiary Loan Agreement.

(c) COFIDE shall provide annual operating plans and quarterly progress reports for Part A of the Project to the PCU at such time and in such manner as reasonably requested by the PCU in order to enable the Borrower, through the PCU, to meet its obligations under Section 3.06 (a) and (b) of the Loan Agreement.

ARTICLE III

Management and Operations of COFIDE

Section 3.01. COFIDE shall carry on its operations and conduct its affairs in accordance with sound administrative and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) COFIDE shall maintain, and shall cause to be maintained by the CFIs with respect to Sub-Subloans, procedures, records and separate accounts adequate to monitor and record the progress of Part A of the Project and of each Selected Irrigation Project and to reflect in accordance with consistently maintained sound accounting practices its operations and financial condition.

(b) COFIDE shall:

- (i) have its records and accounts referred to in paragraph (a) of this Section and its financial statements (balance sheets, statements of income and expenses and related statements), and cause the records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) of the CFIs referred to in paragraph (a) of this Section, 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 months after the end of each such year: (A) certified copies of its financial statements and of those of the CFIs for such year as so audited; and (B) the report of such audits by said auditors of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audits 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 statements of expenditures, or for all expenditures with respect to which withdrawals were made from the Special Account, COFIDE shall provide to the Borrower all records and accounts necessary to allow the Borrower to perform its obligations punctually under Article IV of the Loan Agreement.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of COFIDE thereunder shall terminate on the date on which the Loan

Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify COFIDE thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

For COFIDE:

Corporacin Financiera de Desarrollo
160 Augusto Tamayo Avenue
San Isidro,
Lima, Per

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of COFIDE, or by COFIDE on behalf of the Borrower under the Loan Agreement, may be taken or executed by the General Manager or such other person or persons as the General Manager shall designate in writing, and COFIDE shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Paul Isenman

Acting Regional Vice President
Latin America and the Caribbean

CORPORACION FINANCIERA DE DESARROLLO

By /s/ Luis Quesada Incheustegui
Authorized Representative

SCHEDULE

General

1. Part A of the Project shall be carried out in accordance with the Irrigation Project Credit Manual. Said manual shall not be amended, and no provision of it shall be waived by COFIDE, without the prior approval of the Bank.

2. COFIDE shall constitute a fund for the rehabilitation of the Selected Irrigation Systems (the "Rehabilitation Fund") which shall be comprised of the proceeds of the Loan and the proceeds of the OECF Loan. All withdrawals under Subloans shall be made from the Rehabilitation Fund.

3. COFIDE shall constitute, and operate thereafter, a reserve fund to grant short-term loans, with an amortization period not to exceed one year, to CFIs in the event of defaults by WUOs on Sub-Subloans, in order to provide liquidity to such CFIs while collection measures are being taken. Such reserve fund shall be established and be operated under the criteria and procedures set forth in the Irrigation Project Credit Manual. Whenever not required for the above purposes, the proceeds of the reserve fund shall be utilized for the financing of irrigation rehabilitation projects and other agricultural capital investments under similar terms and conditions as those provided under this Agreement for Part A of the Project and as further described in the Irrigation Project Credit Manual.

4. COFIDE shall enter into a Subsidiary Participation Agreement with each of the CFIs on terms and conditions satisfactory to the Borrower and the Bank. Said agreements shall serve as framework agreements for each of the Subloans.

5. No expenditures for goods, works or services required for the rehabilitation of a Selected Irrigation Project shall be eligible for financing out the proceeds of the Loan unless:

(a) the feasibility study for such Selected Irrigation Project has been approved by PCU;

(b) such expenditures are covered by the terms of an agreement for a Sub-Subloan made in accordance with the provisions of this Schedule and the Irrigation Project Credit Manual; and

(c) the consultants required to supervise the execution of the rehabilitation works have been approved by the PCU.

6. COFIDE shall open a separate account for the receipt of all repayments of principal of the Subloans.

Terms and Conditions of Subloans

7. Subloans shall be denominated in dollars.

8. The interest rate on Subloans shall be an adjustable rate determined by COFIDE's board at prevailing market rates, provided, however, that such rate shall not: (a) be less, at any time, than the sum of the interest rate and other charges on the Loan plus a reasonable fee as determined in the Irrigation Project Credit Manual; and (b) not exceed, at any time, the average cost of funds of the CFI as calculated in accordance with a methodology satisfactory to the Bank.

9. The term of each Subloan shall be established in accordance with the requirements of the Selected Irrigation Project to which the proceeds of the Subloan will be applied but shall, in any event, not exceed a maximum of 15 years, including a maximum of 4 years of grace. Subloans shall finance not more than ninety five percent of the cost of the respective selected Irrigation Projects to be financed under the respective Subloan.

Terms and Conditions of Sub-Subloans

10. Sub-Subloans shall be denominated in dollars.

11. Sub-Subloans shall be made at rates of interest determined by the CFIs at prevailing market rates.

12. The term of each Sub-Subloan shall be determined by the CFIs in accordance with the requirements of the Selected Irrigation Projects but shall, in any event, not exceed 15 years, including a maximum grace period of 4 years.

13. Commercial risk on the Sub-Subloans shall be borne exclusively by the CFIs.

14. CFIs shall not enter into agreements for Sub-Subloans with WUOs unless all of the following conditions are met:

(a) the feasibility study for the rehabilitation works to be financed by a Sub-Subloan shows a rate of return of not less than 12 percent and has been approved by the Borrower through the PCU;

(b) the WUO is legally established in accordance with the applicable laws of the Borrower, has enforceable operating regulations and effective administrative capacity;

(c) the WUO keeps an up-to-date list of all its members;

(d) all members of the WUO have registered their water rights in accordance with the applicable laws of the Borrower; and

(e) the WUO has approved the application for a Sub-Subloan in accordance with the Irrigation Project Credit Manual.

