

June 19, 1998

Ing. Jorge Francisco Baca  
Minister of Economy and Finance  
Ministry of Economy and Finance  
Jr. Junín 319  
Lima 1, Peru

Mr. Marco Castillo Torres  
Gerente General  
COFIDE  
Augusto Tamayo No. 160  
San Isidro  
Lima, Perú

PERU: Irrigation Subsector Project (Loan No. 4076-PE)  
Amendment to Loan Agreement and Termination of Project Agreement

Dear Sirs:

Please refer to the Loan Agreement dated November 7, 1996, for the above-referenced Project (the Loan Agreement) between the Republic of Peru (the Borrower) and International Bank for Reconstruction and Development (the Bank) and the Project Agreement of same date between the Bank and Corporación Financiera de Desarrollo (COFIDE). Whenever used in this letter, all terms defined in the Loan Agreement have the meaning therein set forth.

We are pleased to inform you that pursuant to the request of the Ministry of Economy and Finance dated April 22, 1998, the Bank hereby agrees to amend the Loan Agreement and terminate the Project Agreement as follows:

A. LOAN AGREEMENT

1. Whereas (C) is deleted and the word "and" is inserted at the end of Whereas (B).
2. Section 1.02:

(a) Paragraphs (a), (b), (f), (g), (j), (l), (m), (n) and (o) are deleted and paragraphs (c), (d), (e), (h), (i), (k), (o) and (p) are relettered as paragraphs (a), (b), (c), (d), (e), (f), (g) and (h).

(b) New paragraph (b) is amended to read as follow:

"Operational Manual" means the manual, satisfactory to the Bank, setting forth the rules, procedures and criteria for the implementation of Part A of the Project and to be approved by the Borrower;"

(c) New paragraph (f) is amended to read as follows:

"(f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;"

(d) New paragraph (g) is amended by inserting "and" after the semicolon.

(e) New paragraph (h) is amended by deleting the word "Credit".

3. Section 2.02:

(a) Paragraph (a) is amended to read as follows:

"(a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan."

(b) Paragraph (b) is deleted.

(c) Paragraph (c) is relettered as (b) and amended to read as follows:

"The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement."

4. Section 3.01 is amended to read as follows:

"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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall carry out Parts A, B, C and D of the Project, through the PCU, and Part E of the Project through INADE with due diligence and efficiency and in conformity with appropriate administrative, irrigation, engineering, environmental, ecological and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Parts A, B, C and D of the Project through the PCU and carry out Part E of the Project through INADE in accordance with the Implementation Program set forth in Schedule 5 to this Agreement."

5. Section 3.03 (a) is amended by deleting the phrase "Parts B, C, D and E".

6. Section 3.04 is deleted in its entirety.

7. Sections 3.05 and 3.06 are renumbered as Sections 3.04 and 3.05.

8. The new Section 3.05 (c) is amended by deleting "COFIDE," and by substituting "1998" for "1999".

9. Section 4.01:

(a) Paragraph (a) is amended by deleting "Parts A, B, C, D and E".

(b) Paragraphs (b) (i) and (c) (ii) are amended by deleting "- COFIDE and Special Account-PCU".

10. Section 4.02 is amended by deleting "and COFIDE".

11. Section 5.01 is amended by deleting paragraphs (a), (b), (c) and (d) and relettering paragraphs (e) and (f) as paragraphs (a) and (b).

12. Section 5.02 is amended to read as follows:

"Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of such Section.

13. The table in Schedule 1 is replaced in its entirety by the attachment hereto.

14. Paragraph 4 of Schedule 1 is amended by deleting "(d) for Subloans under Category (1)" and relettering (e), (f) and (g) as (d), (e) and (f).

15. Schedule 4:

(a) Part C of Section I is amended in its entirety to read as follows:

"Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) (i) Goods estimated to cost less than \$250,000 equivalent per contract; and

(ii) works estimated to cost less than \$3,000,000 equivalent per contract, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Procurement of all goods and works under Part C.1 (a) above, shall be carried out using standard bidding documents acceptable to the Bank.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$ 200,000 equivalent, 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 or less per contract, up to an aggregate amount not to exceed \$8,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three 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 Association, 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. Commercial Practices

Goods under Part C of the Project may be procured in accordance with established commercial practices; provided, however, that such practices include packaging of orders to the maximum extent practicable and that they are based on comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank."

(b) Part D.2 (a) of Section I is amended to read as follows:

"(a) With respect to each contract for works and the first contract for goods under the Project procured in accordance with the provisions of Part C.1 above and with respect to each contract for works estimated to cost the equivalent of \$3,000,000 or more and each contract for goods estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Guidelines shall apply."

16. Schedule 5:

(a) Paragraph 1 is amended to read as follows:

"1. Part A of the Project shall be carried out in accordance with the Operational Manual. The Operational Manual shall not be amended, and no provision of it shall be waived by the Borrower, without the prior approval of the Bank."

(b) Paragraph 2 is amended to read as follows:

"2. 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) such expenditures are covered by the terms of an agreement with the respective WUO and which agreement: (i) provides for the commitment of such WUO to cover the operation and maintenance costs of the respective irrigation system and to

finance and carry out the rehabilitation of the remaining canal systems (tertiary and quaternary) not part of the Selected Irrigation Project/s; and (ii) is made in accordance with the provisions of the Irrigation Manual.

(b) the feasibility study for the respective rehabilitation works shows a rate of return of not less than 12 percent;

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

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

(e) the respective WUO has adhered to the Operational Manual."

(c) Paragraph 3 is amended by substituting "three" for "two" in the sixth line.

17. Schedule 6 is hereby deleted.

18. Schedule 7 is renumbered as Schedule 6 and amended as follows:

(a) The title shall read as "Special Account" and all phrases "Special Account -PCU" are replaced by "Special Account".

(b) Paragraph 1 (a) is amended by substituting "(2), (3), (4), (5), (6) and (7)" for "(1) through (7)".

(c) Paragraph 1 (b) is amended by deleting "Parts B, C, D and E".

(d) Paragraph 1 (c) is amended by substituting "\$2,500,000" and "\$ 1,500,000" for "\$ 8,500,00"and "\$ 3,000,000"respectively and by deleting "Parts B, C, D and E".

#### B. PROJECT AGREEMENT

19. All of the provisions of the Project Agreement are hereby terminated

Please indicate your agreement to the foregoing amendments by signing and dating this letter in the space provided below. This amendment letter shall be executed in three counterparts, each of which shall be an original. The provisions of this letter of amendment will be effective upon (e) receipt by the Bank of one such fully signed original; and (b) receipt by the Bank of evidence, satisfactory to the Bank, showing that the Borrower shall have approved the Operational Manual

Sincerely,

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

/s/ Ernesto May  
Acting Director  
Country Management Unit  
Bolivia, Paraguay and Peru  
Latin America and Caribbean Region

AGREED:

REPUBLIC OF PERU

/s/ Jorge Francisco Baca  
Authorized Representative

Date: October 6, 1998

COFIDE

/s/ Marco Castillo Torres  
Authorized Representative

Date: October 6, 1998

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:

(1)	Civil Works under Part A of the Project	46,300,000	85%
(2)	Goods	4,170,000	100% of foreign expenditures and 85% of local expenditures
(3)	Consultants' services	13,030,000	100%
(4)	Agricultural extension services under Part C of the Project	2,730,000	40%
(5)	Matching Grants under Part C of the Project	7,300,000	50%
(6)	Operating expenses under Part D of the Project	2,040,000	75% up to \$350,000 equivalent; 50% thereafter up to an aggregate of \$700,000 equiva- lent; and 25% thereafter
(7)	Civil works under Part E of the Project	2,400,000	100% of foreign expenditures and 75% of local expenditures
(8)	Unallocated	7,030,000	
	TOTAL	<u>85,000,000</u>	