

CONFORMED COPY

LOAN NUMBER 7254-PE

Loan Agreement

**(Accountability for Decentralization in the Social Sectors Technical Assistance
Project)**

between

REPUBLIC OF PERU

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated December 16, 2004

LOAN NUMBER 7254-PE

LOAN AGREEMENT

AGREEMENT, dated December 16, 2004, 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;

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 (as amended through May 1, 2004) (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) “CAR” means ‘*Convenio de Administración por Resultados*’, any or all of the result agreements referred to in paragraph 2 of Part A of Schedule 2 to this Agreement;

(b) “CND” means ‘*Consejo Nacional de Descentralización*’, the Borrower’s national council for decentralization, established and operating pursuant to the Borrower’s Law No. 27783 (‘*Ley de Bases de la Descentralización*’) published on July 20, 2002, as amended;

(c) “DNPP” means ‘*Dirección Nacional del Presupuesto Público*’, the Borrower’s office within MEF in charge of the national public budget;

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

(e) “General Procurement Plan” means the plan dated June 4, 2004, referred to in paragraph 4 of Schedule 5 to this Agreement, outlining procurement arrangements for goods and services to be procured under the Project;

(f) “INEI” means ‘*Instituto Nacional de Estadística e Informática*’, the Borrower’s national institute for statistics;

(g) “Implementation Agreements” means any or all of the agreements referred to in paragraph 1 (b) (ii) of Schedule 5 to this Agreement between the MEF on one hand and each of the following entities: INEI; MIMDES; MINSA; and MINEDU;

(h) “MEF” means ‘*Ministerio de Economía y Finanzas*’, the Borrower’s ministry in charge of economy and finance;

(i) “MIMDES” means ‘*Ministerio de la Mujer y Desarrollo Social*’, the Borrower’s ministry in charge of women and social development;

(j) “MINEDU” means ‘*Ministerio de Educación*’, the Borrower’s ministry in charge of education;

(k) “MINSA” means ‘*Ministerio de Salud*’, the Borrower’s ministry in charge of health;

(l) “Project Operational Manual” means the manual acceptable in form and substance to the Bank, referred to in paragraph 1 (a) (i) of Schedule 5 to this Agreement and outlining policies and implementation procedures including institutional strengthening plans as well as monitoring guidelines for the Project and other related documents, as said manual may be amended from time to time, and such term includes any schedules to the Project Operation Manual;

(m) “PSP” means ‘*Programa Social Prioritario*’, any or all of the priority social programs referred to in paragraph 1 of Part A of Schedule 2 to this Agreement;

(n) “SIAF” means ‘*Sistema Integrado de Administración Financiera*’, the Borrower’s integrated financial administration system, established and operating pursuant to viceministerial Decree No. 005-97-EF/11 dated January 11, 1997;

(o) “Project Preparation Advance” means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on September 3, 2002 and on behalf of the Borrower on November 22, 2002;

(p) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(q) “UCPS” means ‘*Unidad de Coordinación de Préstamos Sectoriales*’, the Project implementation unit within MEF (as defined above) in charge of the day-to-day management and execution of the Project.

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 the Loan Agreement, an amount equal to seven million eight hundred thousand Dollars (\$7,800,000), 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. (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 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 and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

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

(c) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to

repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be December 31, 2007, 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 front-end 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 such 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 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 of 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.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of 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 such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

Section 2.10. The Borrower’s Minister at the time responsible for finance, or the Borrower’s Director General at the time responsible for public credit, and any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and to this end, shall carry out the Project through MEF and UCPS with due diligence and efficiency and in conformity with appropriate administrative, social, financial, cultural, and environmental 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 through UCPS and the Bank shall otherwise agree, the

Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods 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, as said provisions may be further elaborated in the General Procurement Plan.

(b) The Borrower through UCPS shall update the General Procurement Plan in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower through UCPS shall:

(a) prepare through UCPS, 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 through UCPS and the Bank, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower, through UCPS, shall furnish to the Bank, (i) no later than three months after the Effective Date, evidence that it has executed the final Implementation Agreement between MEF and MIMDES; and (ii) no later than twelve months after the Effective Date, evidence that it has executed the final Implementation Agreements between MEF on one hand, and each of INEI, MINSAs, and MINEDU, on the other hand, all above documents in form and substance satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower through UCPS shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower through UCPS shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Paragraph 2 of Schedule 5 to this Agreement, the Borrower, through

UCPS, shall prepare and furnish to the Bank a financial monitoring report (FMR), 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 45 days after the end of the first calendar semester 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 semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01(c) of the General Conditions:

- (a) the Borrower, through UCPS, has adopted the annual operations plan for the first year of the Project and the Project Operational Manual; both in form and substance satisfactory to the Bank;
- (b) the general coordinator for the Project has been appointed, under terms of reference, qualification and experience satisfactory to the Bank and in accordance with the pertinent provisions of Schedule 4 to this Agreement; and
- (c) the Borrower, through UCPS, has adopted a financial and procurement management system, in form and substance satisfactory to the Bank, including the capacity to produce FMRs.

Section 5.02. The date March 16, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.10, the Borrower's Minister at the time in charge of economy and finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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) or
64145 (MCI)

(202) 477-6391

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/ Pedro Pablo Kuczynski
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marcelo Giugale
Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Goods and Equipment	1,100,000	80 %
(2) Consultants’ Services and Audits	4,100,000	80 %
(3) Operating Costs	1,022,000	80%
(4) Refunding of Project Prepara- tion Advance	1,500,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(5) Front-end fee	78,000	Amount due under Section 2.04 of this Agreement
(6) Premium for Interest Rate Caps and Collars	0	Amount due under Section 2.09 (c) of this Agreement
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TOTAL	7,800,000	
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2. For the purposes of this Schedule, the term “Operating Costs” means the incremental and reasonable recurrent expenditures on account of Project implementation, management and monitoring, that would not have been incurred by the Borrower absent the Project, including office supplies, utilities expenses, rental expenses, insurances, facilities and materials for workshops, vehicles and equipment operation, bank charges

on the Special Account, transport, travel, per diem, supervision costs and local contractual staff salaries, but excluding salaries of officials of the Borrower's civil service, at the national and at the local levels.

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.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$350,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$200,000 equivalent per contract; and (d) Operating Costs, as set forth in Category (3) of the table in paragraph 1 of this Schedule; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the quality and delivery of social policies and programs in the context of decentralization in the Borrower's territory.

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 objective:

Part A: Improving the Quality of Social Policies and Programs

1. Design social policy frameworks in a decentralized context in order to protect expenditures for the priority social programs, improve coverage and efficiency of the pension system, and enhance the decentralization of MINEDU and MINSA.
2. Develop the Borrower's capacity in result-oriented social planning, including sectoral strategic plans, program results frameworks and result agreements between MEF and social programs.

Part B: Implementing Performance Agreements and Accreditation of Social Sectors

1. Design and implement the tools that will contribute to an accreditation process for MIMDES social programs, including the definition of benchmarks and the establishment of an assessment mechanism.
2. Implement performance or management agreements as well as capacity-building initiatives at the local level in the Borrower's territory through technical assistance, training and dissemination programs.
3. Monitor and evaluate the Borrower's budget transfers for social programs to subnational governments.

Part C: Improving Monitoring and Evaluation in Social Sectors

1. Strengthen SIAF in terms of its budget and its physical target modules, and the student monitoring system in the MINEDU.
2. Implement a monitoring system for the social programs within MIMDES.

3. Strengthen the Borrower's evaluation instruments and capacities through the improvement of home surveys and training of social sector staff on monitoring and evaluation.
4. Carry out independent intermediate and impact evaluations of the social programs.
5. Support the Borrower's transparency and participatory monitoring mechanisms including independent budget analysis, participatory evaluation and establishment of feedback mechanisms.

Part D: Project Management

1. Support Project implementation, monitoring and evaluation by UCPS.
2. Strengthen UCPS capacity in terms of procurement and financial management processes.
3. Carry out audits for the Project.

* * *

The Project is expected to be completed by June 30, 2007.

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</u> <u>(Expressed as a %)</u>
On each July 15 and January 15 Beginning on January 15, 2013 through January 15, 2018	8.33%
On July 15, 2018	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 sub-paragraph (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 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 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: (i) 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 (ii) 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

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$500,000 but more than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost \$100,000 equivalent per contract or less, may be procured under contracts awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant

Guidelines, the short list of consultants for services estimated to cost less than \$350,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services 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, 3.7 and 3.8 of the Consultant Guidelines.

3. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review. Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods and Services (other than Consultants' Services).

(a) The prior review procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Procurement Guidelines shall apply to: (i) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$350,000 or more; and (ii) the first contract awarded on the basis of National Competitive Bidding and Shopping irrespective of the contract amount.

(b) The following prior review procedures shall apply to each contract to be procured on the basis of Direct Contracting: (i) prior to the execution of the contract, the Borrower through UCPS shall provide to the Bank a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Bank's

approval shall have been given; and (iii) the procedures set forth in paragraphs 2 (h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services Provided by Firms.

(a) The prior review procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$200,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by a firm to be procured on the basis of sole source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Consultants' Services Provided by Individuals.

(a) The prior review procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by an individual to be procured on the basis of sole source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review.

1. With respect to each contract for goods or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.

Section V. Special Provisions

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 Section II 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 through UCPS shall utilize standard bidding documents satisfactory to the Bank.

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 III 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.

SCHEDULE 5

Implementation Program

1. General

- (a) The Borrower through UCPS shall:
 - (i) carry out the Project in accordance with the Project Operational Manual, the General Procurement Plan and the Implementation Agreements and, except as the Bank shall otherwise agree, shall not amend or waive any provision of these 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; and
 - (ii) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof.

- (b) The Borrower shall:
 - (i) operate and maintain until the completion of the execution of the Project, the UCPS with functions and responsibilities acceptable to the Bank and with competent staff in adequate numbers, all said staff with terms of reference, qualification, experience and terms of employment satisfactory to the Bank;
 - (ii) enter into and thereafter implement in a manner satisfactory to the Bank and until the completion of the execution of the Project, the Implementation Agreements, and except as the Bank shall otherwise agree, shall not amend, terminate, abrogate, fail to implement or waive any said Agreement or any substantive provision thereof without the Bank's prior written approval. In case of any conflict among the terms of any Implementation Agreement and those of this Agreement, the terms of this Agreement shall prevail; and
 - (iii) participate until the completion of the execution of the Project, in at least yearly consultation meetings with UCPS, MIMDES,

MINEDU, MINSA and INEI for the purpose of ensuring appropriate implementation of the respective Implementation Agreement and report on said consultation meetings to the Bank;

2. Semi-Annual Progress Reports, Annual Operations Plan and Mid-Term Review

The Borrower through UCPS shall:

(a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31, and July 31 of each year, starting on the first such date after the Effective Date, a progress report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 (a) (ii) of this Schedule, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(b) review with the Bank, by February 28 and August 31 of each year, starting on the month following the presentation of the first semi-annual progress report, or such later date as the Bank shall request, the pertinent report referred to in subparagraph (a) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said pertinent report and the Bank's views on the matter;

(c) (i) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about November 31 of each year, starting on the first such date after the Effective Date, an annual operations plan setting out the activities to be achieved during the calendar year following the presentation of said plan to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the calendar year following such date; and (ii) thereafter carry out each said plan in accordance with its terms;

(d) review with the Bank, by December 15 of each year, starting on the month following the presentation of the second annual operations plan, or such later date as the Bank shall request, the plan referred to in subparagraph (c) of this paragraph;

(e) by December 31, 2005, or such other date as the Bank shall agree upon, carry out jointly with the Bank a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and

(f) following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.

3. Annual Procurement Audits

The Borrower through UCPS shall:

(a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles acceptable to the Bank, by independent procurement 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.

4. General Procurement Plan

The Borrower through UCPS shall:

(a) update and furnish to the Bank, on or about January 31 of each year, starting on the first such date after the Effective Date, the General Procurement Plan, satisfactory to the Bank, detailing all procurement activities under the Project for the following twelve months;

(b) review with the Bank, by February 28 of each year, starting on the first such date after the Effective Date, or such later date as the Bank shall request, the plan referred to in paragraph (a) of this Section, and thereafter, take all measures required to ensure the efficient completion of the plan based on its recommendations and the Bank's views on the matter; and

(c) in case of any conflict between the terms of the General Procurement Plan and those of this Agreement, the terms of this Agreement shall prevail.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$700,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Loan Account for the categories specified in paragraph 1 (a) of this Schedule plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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, through UCPS, shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower through UCPS, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower through UCPS shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower through UCPS shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

- (ii) Prior to or at the time of each such request, the Borrower, through UCPS, shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule 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, through UCPS, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower through UCPS 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower through UCPS out of the Special Account, the Borrower, through UCPS, 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower through UCPS directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower, through UCPS, 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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 allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 7

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Borrower and the Bank:

Performance Indicators	Target Dates	
	Mid Term	End of Project
1. Percent of budget linked to performance agreements on food programs and rural infrastructure programs	10%	40%
2. Number of results agreements (CARs) signed between DNPP and sectors including incentives	1	3
3. Number of municipalities and regional governments with monitoring reports of budget execution and physical goals of PSPs	50 municipalities and 20 regions	500 municipalities and 25 regions
4. Number of impact and qualitative evaluations of social programs	2 contracts signed with independent consultants to carry out such	8 evaluations published and discussed in public