

CONFORMED COPY

LOAN NUMBER 7701-PE

Project Agreement

(Water Resources Management Modernization Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

AUTORIDAD NACIONAL DEL AGUA

Dated December 3, 2009

PROJECT AGREEMENT

Agreement dated December 3, 2009, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and AUTORIDAD NACIONAL DEL AGUA (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between REPUBLIC OF PERU (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity, through its PIU, shall carry out the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity, through its PIU, shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is its Chief (*Jefe*).
- 3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Calle Los Petirrojos 355
San Isidro
Lima, Peru

Facsimile:

+5112262673

AGREED at Lima, Peru, as of the day and year first above written.

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ C. Felipe Jaramillo
Authorized Representative

AUTORIDAD NACIONAL DEL AGUA

By /s/ Francisco Palomino García
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

The Project Implementing Entity shall maintain, until completion of the Project, competent staff with qualifications and experience satisfactory to the Bank in adequate numbers (as detailed in the Operational Manual), with functions satisfactory to the Bank, responsible for the management, coordination, supervision, monitoring and evaluation of the Project.

B. Implementation Agreements

1. To facilitate the carrying out of Part 1.D(i) and Part 2.A(x) of the Project, not later than December 31, 2009, the Project Implementing Entity shall enter into an agreement with MINEDU under terms and conditions satisfactory to the Bank ("MINEDU Agreement").
2. To facilitate the carrying out of Parts 1.B and 2.A(viii) of the Project, the Project Implementing Entity shall enter into an agreement with SENAMHI, under terms and conditions satisfactory to the Bank ("SENAMHI Agreement").
3. The Project Implementing Entity shall exercise its rights and carry out its obligations under the MINEDU Agreement and the SENAMHI Agreement, in such manner as to protect the interests of the Project Implementing Entity and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive the MINEDU Agreement, the SENAMHI Agreement or any of their provisions.

C. Anti-Corruption

The Project Implementing Entity shall ensure that the PIU carries out the Project in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards and Operational Manual

1. The Project Implementing Entity, through its PIU, shall carry out the Project in accordance with the provisions of:
 - (a) the Environmental Management Framework;

- (b) the Indigenous Peoples Planning Framework; and
 - (c) a manual (the Operational Manual), satisfactory to the Bank, that will include, *inter alia*: (i) the organizational structure of the Project, including the structure and terms of reference of personnel in charge of the implementation of the Project and the composition functions and responsibilities of the Project Steering Committee; (ii) the procedures for the carrying out, monitoring and evaluation of the Project; (iii) the indicators to be used for Project monitoring and evaluation; (iv) the Project procurement and financial management requirements and procedures; (v) the Project's chart of accounts and internal controls; (vi) the format of: (A) the unaudited interim financial reports referred to in Section II.B.3 of this Schedule; and (B) the Financial Statements; and (vii) the terms of reference for carrying out the Project audits under Section II.B.2 of this Schedule. In case of any inconsistency between any provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail. Any amendment to the Operational Manual can occur only if approved by the Project Steering Committee, the Project Implementing Entity's Chief and acceptable to the Bank.
2. The Project Implementing Entity shall ensure that no Resettlement shall occur as a result of the implementation of the Project.

E. Other Covenants

- 1. Not later than June 30, 2010, the Project Implementing Entity shall establish and thereafter maintain throughout Project implementation, the CCs for the Pilot River Basins.
- 2. Not later than 45 days after the Effectiveness Date, the Project Implementing Entity, through its PIU, shall implement the financial management system and hire the financial and procurement specialists agreed with the Bank.
- 3. Not later than December 31, 2009, the Project Implementing Entity shall provide adequate office facilities in Lima for the operation of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. The Project Implementing Entity, through its PIU, shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of the indicators agreed with the Bank and set forth in the Operational Manual. Each such Project Report shall cover the period of one calendar semester, and

shall be furnished to the Borrower not later than 45 days after the end of the period covered by such report.

2. The Project Implementing Entity, through its PIU, shall provide to the Borrower not later than June 30, 2015, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity, through its PIU, shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.
2. The Project Implementing Entity shall have the financial statements of the Project referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Bank not later than six months after the end of the period.
3. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity, through its PIU, shall prepare and furnish to the Bank not later than one month after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.

Section III. Procurement

All goods, works and services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

Section IV. Amendments to the Project Agreement

No amendments shall be done to this Agreement without the approval of the Borrower's Ministry of Economy and Finance.