Agreement Amending
Loan Agreement

(Irrigation Subsector Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

October 28, 2005
AGREEMENT AMENDING
LOAN AGREEMENT

AGREEMENT, dated October 28, 2005 between REPUBLIC OF PERU (the Borrower), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower and the Bank have entered into a Loan Agreement (Irrigation Subsector Project) dated November 7, 1996 (the Loan Agreement), as amended, for the purpose of assisting through an initial loan (the Loan or the Initial Loan) in the financing of the project described in Schedule 2 to the Loan Agreement (the Project);

(B) the Borrower has requested the Bank to provide additional assistance through a supplemental loan (the Supplemental Loan) in support of the Project by increasing the amount made available under the Loan Agreement by an amount equal to ten million two hundred sixty thousand Dollars ($10,260,000);

(C) the Borrower intends to contract from the Japan Bank for International Cooperation (JBIC) a loan (the JBIC Loan) in an amount in Japanese Yen equivalent approximately to fifty six million Dollars ($56,000,000) to assist in financing the Project on the terms and conditions to be set forth in an agreement (the JBIC Loan Agreement) to be entered into between the Borrower and JBIC;

(D) Parts C1 (i), C1 (iii) and D of the Project will be carried out by Instituto Nacional de Recursos Naturales (INRENA) through Intendencia de Recursos Hídricos of Instituto Nacional de Recursos Naturales (IRH-INRENA) with the Borrower’s assistance, and as part of such assistance, the Borrower will make available to IRH-INRENA part of the proceeds of the Supplemental Loan as provided in this Agreement;

(E) The Borrower has adopted a Ministerial Resolution No. 498-2003-AG approving its National Policy and Strategy for Irrigation (Política y Estrategia Nacional de Riego en el Perú); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to provide such additional assistance to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:
ARTICLE I

Section 1.01. Unless the context otherwise requires the several terms defined in the Loan Agreement, including the new terms introduced pursuant to this Agreement (as set forth in Article II below), and the Preamble to this Agreement have the respective meanings therein set forth.

ARTICLE II

Amendments to the Loan Agreement

Section 2.01. Section 1.01 of the Loan Agreement is hereby amended to read in its entirety as follows:

“Section 1.01. (a) The General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans of the Bank, dated May 30, 1995, (the Single Currency Loan General Conditions) constitute an integral part of this Agreement and apply in respect of the Initial Loan; and wherever used in this Agreement, the term "General Conditions" shall, in respect of the Initial Loan, be deemed to refer to the Single Currency Loan General Conditions and the term “Loan” shall be deemed to refer to the Initial Loan.

(b) 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 Fixed-Spread Loan General Conditions) constitute an integral part of this Agreement and apply in respect of the Supplemental Loan.”

Section 2.02. Section 1.02 of the Loan Agreement is hereby amended to read in its entirety as set forth in Annex 1 to this Agreement.

Section 2.03. Article II of the Loan Agreement is hereby amended by changing its subtitle from “The Loan” to “The Initial Loan and the Supplemental Loan” and by adding subsequent new sections to read as follows:

“Section 2.08. 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 ten million two hundred sixty thousand Dollars ($10,260,000) (the Supplemental Loan), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.16 of this Agreement.

Section 2.09. (a) The amount of the Supplemental Loan may be withdrawn from the Supplemental Loan Account in accordance with the
provisions of Schedule 1 to the Loan Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of works, goods and services (including those financed through Matching Grants) required for the Project and to be financed out of the proceeds of the Supplemental Loan and in respect of any premium related to an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the Fixed-Spread Loan General Conditions.

(b) The Borrower, through PSI, may open and maintain in Dollars a new separate special deposit account in Banco de la Nación, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Supplemental Loan Special Account shall be made in accordance with the provisions of Schedule 9 to this Agreement.

Section 2.10. The Closing Date for the Supplemental Loan shall be June 30, 2008 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.11. 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.12. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Supplemental 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 2.13. The Borrower shall pay interest on the principal amount of the Supplemental 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 Supplemental Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the Fixed-Spread Loan General Conditions.
Section 2.14. Interest and commitment charges shall be payable semiannually in arrears on January 15 and July 15 in each year in respect of the Supplemental Loan.

Section 2.15. The Borrower shall repay the principal amount of the Supplemental Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.16. (a) The Borrower may at any time request any of the following Conversions of the terms of the Supplemental Loan in order to facilitate prudent debt management:

(i) a change of the Supplemental Loan Currency of all or any portion of the principal amount of the Supplemental 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 Supplemental 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 Supplemental 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 Fixed-Spread Loan General Conditions, and shall be effected in accordance with the provisions of Article IV of the Fixed-Spread Loan 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 Supplemental Loan, the Bank shall, on behalf of the Borrower, withdraw from the Supplemental Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the Fixed-Spread Loan General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to the Loan Agreement.
Section 2.17. The Borrower’s Minister at the time responsible for Finance or the Borrower’s Director General at the time responsible for public indebtedness, 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 in respect of the Supplemental Loan under the provisions of Section 2.09 of this Agreement and Article V of the Fixed-Spread Loan General Conditions.”

Section 2.04. Article III of the Loan Agreement is hereby amended to read as follows:

“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 Parts A, B, C1 (ii), C2 and E of the Project through PSI, and Parts C1 (i), C1 (iii) and D of the Project through IRH-INRENA with due diligence and efficiency and in conformity with appropriate administrative, engineering, social, financial, agricultural, public utility, cultural heritage and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall transfer a portion of the proceeds of the Loan to IRH-INRENA under an Institutional Cooperation Agreement to be entered into between the Borrower and INRENA, under terms and conditions which shall have been approved by the Bank.

(c) The Borrower, through MAG, shall exercise its rights under the Institutional Cooperation Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

(d) Without limitation upon the provisions of paragraphs (a), (b) and (c) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower through PSI and IRH-INRENA shall carry out the Project in accordance with the Implementation Program set forth in Schedule 8 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project, including those financed through Matching Grants, and to be financed out of the proceeds of the Supplemental Loan shall be governed by the provisions of Schedule 7 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.
(b) The Borrower, through PSI, shall update the Procurement Plan in accordance with the provisions of paragraph 4 of Schedule 7 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the Fixed-Spread Loan General Conditions and without limitation thereto, the Borrower, through PSI, 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 future operation of the Project; and

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

Section 2.05. Article IV of the Loan Agreement is hereby amended by adding subsequent new Sections to read as follows:

“Section 4.03. (a) The Borrower, through PSI, shall in respect to the Supplemental Loan, 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 PSI, 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 Supplemental Loan 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 (6) 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 Supplemental Loan Account were made on the basis of statements of expenditure, the Borrower, through PSI, 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 Supplemental 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 4.04. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Paragraph 2 of Schedule 8 to this Agreement, the Borrower, through PSI, shall prepare, or cause to be prepared and furnish to the Bank a financial monitoring report, consistent with SNIP and 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 Supplemental 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 of the Supplemental Loan, 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.”

Section 2.06. Article V of the Loan Agreement is hereby amended to read as follows:

“Remedies of the Bank

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

(a) INRENA through IRH-INRENA shall have failed to perform any of its obligations under the Institutional Cooperation Agreement;

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that INRENA through IRH-INRENA will be able to perform its obligations under the Institutional Cooperation Agreement;

(c) The Borrower's Decree-Law No. 25904, referred to in Section 1.02(h) of this Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the ability of INRENA through IRH-INRENA to perform any of its obligations under the Institutional Cooperation Agreement;

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of INRENA or IRH-INRENA or for the suspension of their operations.

Section 5.02. Pursuant to Section 7.01(k) of the Fixed-Spread Loan General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (b), (c) and (d) of Section 5.01 of this Agreement shall occur.”
Section 2.07. The table in Schedule 1 to the Loan Agreement is amended as set forth in the Annex 2 to this Agreement.

Section 2.08. Sub-paragraphs (d) of paragraph 2 of Schedule 1 to the Loan Agreement is deleted and Sub-paragraph (c) of paragraph 2 of Schedule 1 to the Loan Agreement are amended to read as follows:

“(c) the term ‘Operating Costs’ means the incremental expenses incurred in connection with the Project based on the Annual Budget approved by the Bank, including: (i) for Category (6)(a) transport, local travel, per diem, vehicle rental expenses, vehicle operation and insurance, reproduction and printing services; and (ii) for Category (6)(b) transport, local travel, per diem, vehicle rental expenses, vehicle operation and insurance, reproduction and printing services, communication costs, office supplies and organization of events; all needed for the implementation and supervision of the Project but excluding salaries of the Borrower’s civil service and regular staff of IRH-INRENA.”

Section 2.09. Paragraphs 3 and 4 of Schedule 1 to the Loan Agreement are amended to read in their entirety as follows:

“3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (i) any Category set forth in the table in paragraph 1 of this Schedule unless and until the Borrower shall have paid to the Bank in full the front-end fee referred to in Section 2.11 of the Loan Agreement; and (ii) payments made with regard to the Supplemental Loan, for expenditures prior to the date of this Amending Agreement, except that withdrawals, in an aggregate amount not to exceed $1,200,000, may be made in respect of: (A) Category (1)(a) of the table in paragraph 1 above on account of payments made for expenditures incurred before the date of the Amending Agreement but after April 11, 2005; and (B) Categories (3) and (6) of the table in paragraph 1 above on account of payments made for expenditures incurred before the date of the Amending Agreement but after January 1, 2005.

4. The Bank may require withdrawals from the Supplemental Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $250,000 equivalent per contract; (b) community works under Category 1 (a) under contracts costing less than $500,000 equivalent per contract; (c) services of consulting firms under contracts costing less than $100,000 equivalent per contract; (d) services of individual consultants costing less than $50,000 equivalent per contract; (e) Matching Grants for Subprojects under Category (5); and (f) operating costs under Category (6); all under such terms and conditions as the Bank shall specify by notice to the Borrower.”
Section 2.10. Schedule 2 to the Loan Agreement is amended to read as set forth in the Annex 3 to this Amending Agreement.

Section 2.11. Schedule 3 to the Loan Agreement is hereby amended by changing its subtitle from “Amortization Schedule” to “1. Amortization Schedule for the Initial Loan” and by adding a subsequent new paragraph to read as follows:

“2. Amortization Schedule for the Supplemental Loan:

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

<table>
<thead>
<tr>
<th>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each January 15 and July 15 Beginning on July 15, 2013 through July 15, 2018</td>
<td>8.33%</td>
</tr>
<tr>
<td>On January 15, 2019</td>
<td>8.37%</td>
</tr>
</tbody>
</table>

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

   (i) To the extent that any proceeds of the Supplemental 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 (a) of this Schedule.
(ii) 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 (a) 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 sub-paragraph (d) of this paragraph, to which a Currency Conversion applies.

(c) (i) 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.

(ii) Notwithstanding the provisions of sub-paragraph (i) of this paragraph (c), 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.

(d) Notwithstanding the provisions of sub-paragraphs (a) and (b) of this paragraph, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Supplemental 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.
(e) If the principal amount of the Supplemental Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this paragraph shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.”

Section 2.12. The subtitle of Schedule 4 to the Loan Agreement is amended to read “Procurement and Consultants’ Services under the Initial Loan”.

Section 2.13. The subtitle of Schedule 5 to the Loan Agreement is amended to read “Implementation Program under the Initial Loan”.

Section 2.14. The subtitle of Schedule 6 to the Loan Agreement is amended to read “Special Account under the Initial Loan”.

Section 2.15. A new Schedule 7 to the Loan Agreement (“Procurement under the Supplemental Loan”) is added to read as set forth in the Annex 4 to this Amending Agreement.

Section 2.16. A new Schedule 8 to the Loan Agreement (“Implementation Program under the Supplemental Loan”) is added to read as set forth in the Annex 5 to this Amending Agreement.

Section 2.17. A new Schedule 9 to the Loan Agreement (“Supplemental Loan Special Account”) is added to read as set forth in the Annex 6 to this Amending Agreement.

Section 2.18. A new Schedule 10 to the Loan Agreement (“Performance Indicators” under the Supplemental Loan) is added to read as set forth in the Annex 7 to this Amending Agreement.

ARTICLE III

Effective Date; Termination

Section 3.01. This Amending Agreement shall not become effective until evidence satisfactory to the Bank shall have been furnished to the Bank that: (a) the Project Operational Manual has been adopted by the Borrower through a Ministerial Resolution; (b) the execution and delivery of the Institutional Cooperation Agreement on behalf of the Borrower through MAG and on behalf of INRENA have been duly authorized or ratified by all necessary governmental and corporate action; (c) the execution and delivery of this Amending Agreement on behalf of the Borrower have been duly authorized or ratified by all necessary governmental action; and (d) the Borrower
made payments to finance eligible expenditures under the Project incurred prior to the date of this Amending Agreement up to an aggregate amount equivalent to: (i) $700,000 for activities under Parts A, C and E of the Project, with the proviso that said expenditures must have been incurred: (A) after January 1, 2005 under Part C of the Project; or (B) after April 11, 2005 under Parts A and E of the Project; and (ii) $900,000 for activities under Part D of the Project, with the proviso that said expenditures must have been incurred after January 1, 2005.

Section 3.02. As part of the evidence to be furnished pursuant to Section 3.01 of this Amending Agreement and Section 12.02 (c) of the Fixed-Spread Loan General Conditions, there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank showing that:

(a) this Amending Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms; and

(b) the Institutional Cooperation Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower through MAG and INRENA and is legally binding upon the Borrower through MAG and INRENA in accordance with its terms.

Section 3.03. This Amending Agreement shall come into force and effect on the date upon which the Bank shall dispatch to the Borrower a notice of its acceptance of the evidence required by Sections 3.01 and 3.02 of this Amending Agreement.

Section 3.04. If the conditions set forth in Sections 3.01 and 3.02 of this Agreement have not been met by January 26, 2006, this Amending Agreement and all obligations of the parties hereunder shall terminate, unless the Bank establishes a later date for the purposes of this Section.
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Amending Agreement to be signed in their respective names in Lima, Peru as of the day and year first above written.

REPUBLIC OF PERU

By /s/ Fernando Zavala Lombardi

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Marcelo M. Giugale

Regional Vice President
Latin America and the Caribbean
“Section 1.02. Unless the context otherwise requires, the several terms defined in the Single Currency Loan General Conditions, and the Fixed-Spread Loan 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) ‘Amending Agreement’ means the Agreement dated October 28, 2005 entered into between the Borrower and the Bank for purposes of providing additional assistance in support of the Project;

(b) ‘ATDR’ means ‘Administración Técnica de Distrito de Riego’, the local water authority within MAG created and operating under Borrower’s Law No. 17752, dated July 24, 1969;

(c) ‘Environmental Management Plan’ means the plan to be adopted by the Borrower, outlining (i) implementation procedures, mitigation measures and monitoring guidelines in relation to activities under the Project involving the use of pest control products; (ii) chance finding measures for cultural heritage property; and (iii) monitoring guidelines and environmental guidelines for all infrastructure investments under the Project; said plan may be amended from time to time with the Bank’s prior approval and shall be annexed to the Project Operational Manual;

(d) ‘Executive Council’ (Consejo Directivo) means the highest oversight body for the Project headed by the Minister of Agriculture and comprising representatives from MEF, IRH-INRENA, WUOs, the agro-export sector, academia, and the regional governments, as established and operating under a Ministerial Resolution to be adopted by the Borrower;

(e) ‘Financial Monitoring Report’ or ‘FMR’ means each report prepared in accordance with Section 4.04 of this Agreement;

(f) ‘Independent Auditors’ means the independent auditors referred to in Section 4.03(b)(i) of this Agreement and paragraph 3(a) of Schedule 8 to this Agreement selected for each auditing task under separate selection procedures in accordance with Section III of Schedule 7 to this Agreement and contracted for a period of up to two years;

(g) ‘Initial Loan’ means the loan provided for in Section 2.01 of the Loan Agreement;

(h) ‘INRENA’ means ‘Instituto Nacional de Recursos Naturales’, the Borrower’s national institute for natural resources, established and operating pursuant to the Borrower’s Decree-Law No. 25904, dated November 29, 1992;
(i) ‘Institutional Cooperation Agreement’ means the agreement executed between the MAG and INRENA, for purposes of governing such parties’ cooperation with respect to the implementation of Parts C1 (i); C1 (iii) and D of the Project; as witnessed by the Bank;

(j) ‘IRH-INRENA’ means ‘Intedencia de Recursos Hídricos’, the Borrower’s national water authority within INRENA;

(k) ‘MAG’ means the Borrower’s Ministry of Agriculture;

(l) ‘Matching Grant’ means a grant made or proposed to be made to a Recipient for activities for Subprojects under Part B of the Project in accordance with paragraph 5 of Schedule 8 to this Agreement and with the Matching Grants Operational Manual;

(m) ‘Matching Grant Agreement’ means an agreement between PSI and a Recipient, setting forth the terms and conditions under which a Matching Grant shall be made available to said Recipient for the purpose of financing activities under Part B of the Project in accordance with paragraph 5 of Schedule 8 to this Agreement and with the Matching Grants Operational Manual;

(n) ‘Matching Grants Operational Manual’ means the manual referred to in paragraph 1 of Schedule 8 to this Agreement, to be annexed to the Project Operational Manual and outlining policies, procurement, disbursement and implementation procedures as well as monitoring guidelines for Subprojects under Part B of the Project;

(o) ‘MEF’ means the Borrower’s Ministry of Economy and Finance;

(p) ‘Procurement Plan’ means the Borrower’s procurement plan dated April 15, 2005 covering the entire period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of paragraph 4 of Schedule 8 to this Agreement;

(q) ‘Project Operational Manual’ means the manual to be approved by the Borrower through a Ministerial Resolution and outlining policies and implementation procedures including institutional strengthening and environmental mitigation plans as well as monitoring guidelines and guidelines for the selection of Subprojects in accordance with SNIP and other related documents. Said manual may be amended for time to time with the Bank’s prior approval, and such term includes any schedules to the Project Operation Manual, including the Matching Grants Operational Manual, the MAG Ministerial Resolution on eligibility criteria for WUOs, the MAG Ministerial Resolution on the establishment and operation of the Executive Council, the MAG Ministerial Resolution
approving the organizational and functional manual of the Project; and the Environmental Management Plan;

(r) ‘PSI’ means the Project implementation team within MAG in charge of the day-to-day management and execution of the Project;

(s) ‘Recipient’ or ‘Recipients’ means a group of at least six (6) farmers with a minimum of twenty four (24) hectares which has met the eligibility criteria specified in the Matching Grants Operational Manual, and, as a result, has been granted or is to be granted a Matching Grant for a Subproject under Part B of the Project;

(t) ‘SNIP’ means ‘Sistema Nacional de Inversión Pública’, the Borrower’s national system of public investment created and operating under Law No. 27293, dated June 28, 2000 and establishing principles, processes, methodologies and technical guidelines for every phase of public investment in the Borrower’s territory;

(u) ‘Special Account’ or ‘Special Account under the Initial Loan’ means the account referred to in Section 2.02 (b) of the Loan Agreement;

(v) ‘Subproject’ means any of the activities approved by PSI in accordance with the criteria and procedures set forth in the Matching Grants Operational Manual and in paragraph 5 of Schedule 8 to this Agreement;

(w) ‘Supplemental Loan’ means the loan provided for in Section 2.08 of the Loan Agreement also identified as ‘Ampliación del Proyecto Subsectorial de Irrigación - PSI - en el marco del Préstamo 4076-PE Banco Mundial’ by the Borrower;

(x) ‘Supplemental Loan Special Account’ or ‘Special Account under the Supplemental Loan’ means the account referred to in Section 2.09 (b) of the Loan Agreement;

(y) ‘Water Resources Strategy’ means the Borrower’s water resources strategy as formalized in MAG Ministerial Resolution No. 0082-2004-AG;

(z) ‘WUO’ means a water user organization which, depending on the context, can be either an irrigators’ commission ‘Comisión de Regantes’ or a users’ board ‘Junta de Usuarios’, or both or any other eligible water organization acceptable to the Bank, in accordance with the Project Operational Manual”; and

(aa) ‘WUO Eligibility Criteria’ means the eligibility criteria established in order for WUOs to benefit from the Parts A and B of the Project; i.e.: (i) a technical manager has
been appointed for the relevant WUO; (ii) a realistic budget reflected in water tariffs has been adopted allowing efficient operation and maintenance; (iii) the advanced water tariff payment system has been adopted; and (iv) at least 75% of said tariff has been paid in advance.
ANNEX 2

Withdrawal of the Proceeds of the Initial Loan and Supplemental Loan

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Initial Loan Amount of the Initial Loan Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
<th>Supplemental Loan Amount of the Supplemental Loan Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Civil Works under Part A of the Project</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) Community works</td>
<td>40,100,000</td>
<td>85%</td>
<td>2,500,000</td>
<td>65% until June 30, 2006; 60% thereafter</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>1,610,000</td>
<td>100% of the Borrower’s contribution</td>
<td>1,100,000</td>
<td>100% of foreign expenditures and 85% of local expenditures</td>
</tr>
<tr>
<td>(3) Consultants’ Services and Audits</td>
<td>26,600,000</td>
<td>100% of foreign expenditures</td>
<td>4,160,000</td>
<td>100% of foreign expenditures and 85% of local expenditures</td>
</tr>
<tr>
<td>Category</td>
<td>Amount</td>
<td>%</td>
<td>Amount</td>
<td>%</td>
</tr>
<tr>
<td>-------------------------------------------------------------------------</td>
<td>------------</td>
<td>----</td>
<td>------------</td>
<td>----</td>
</tr>
<tr>
<td>(4) Agricultural Extension Services</td>
<td>124,000</td>
<td>40%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(5) Goods, Works and Services for Matching Grants under Subprojects</td>
<td>5,687,000</td>
<td>50%</td>
<td>1,840,000</td>
<td>70%</td>
</tr>
<tr>
<td>(6) Operating Costs</td>
<td>4,400,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) under Parts A and B of the Project</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) under Parts C and D of the Project</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(7) Civil works under other Parts of the Project</td>
<td>4,200,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(8) Unallocated</td>
<td>779,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(9) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>85,000,000</td>
<td></td>
<td>10,260,000</td>
<td></td>
</tr>
</tbody>
</table>
ANNEX 3

SCHEDULE 2

Description of the Project

The objective of the Project is to increase the productivity of irrigated agriculture in the Borrower’s coastal territory in order to improve the well being of farmers and contribute to poverty alleviation.

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: Rehabilitation and Improvement of Irrigation Infrastructure

Design, execution and supervision of rehabilitation works for public irrigation infrastructure up to a total investment cost of US$250,000 each including taxes.

Part B: Incentive Program for Irrigation Technology Improvement

Design, installation and supervision of incentive-driven technified irrigation systems through the establishment of a Matching-Grant program and the participation of the Recipients.

Part C: Institutional Strengthening and Capacity Building

1. Institutional Strengthening and Capacity Building for WUOs

   (i) Approve capacity building programs for the WUOs in the areas of financial, administrative and technical management; (ii) carry out said capacity building programs; and (iii) follow-up with WUOs and ATDRs the execution of said capacity building programs.

2. Capacity Building in Technification of Irrigation

   Carrying out of: (i) capacity building programs for the Recipients, including sensitization initiatives, promotion of group formation, technical assistance in the elaboration and management of the Subprojects as well as the preparation of business
plans; and (ii) an extension and promotion program on technified irrigation and related agricultural practices, including pest management, for farmers and agricultural workers.

Part D: Support to Water Resources Management

1. Formalization and issuance of water right licenses in favor of approximately 190,000 irrigated lots assigned in irrigation blocks.

2. Establishment of an administrative registry of water rights for the administration of water licenses, permits and authorization.

3. Support to: (i) the preparation of the Borrower’s Water Resources Strategy, including discussion fora at the national and sub-national levels; and (ii) the reform of the legal framework for water use in the Borrower’s territory.

Part E: Coordination and Monitoring

Strengthening of the PSI to enable it to carry out its coordination and monitoring functions for the Project.

* * *

The Project is expected to be completed by December 31, 2007.
ANNEX 4

SCHEDULE 7

Procurement under the Supplemental Loan

Section I. Procurement of Goods, Works and Consultants’ Services

A. All goods, works 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 Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement method or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works 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 by domestic suppliers.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $350,000 equivalent per contract and works estimated to cost less than $3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.
2. **Shopping.** Goods estimated to cost $50,000 or less equivalent per contract and works estimated to cost $250,000 or less equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. **Direct Contracting.** Goods and works which the Bank agrees meet the requirements for Direct Contracting may, with the Bank’s prior agreement, be procured in accordance with the provisions of said procurement method.

4. **Small Community Works.** Small community works estimated to cost less than $250,000 equivalent per community work and required for Part A of the Project may be carried out by the respective WUO.

5. **Community Participation.** Goods, works and services (other than consultants’ services) estimated to cost less than $250,000 equivalent per contract and required for Part B of the Project may be procured on the basis of community participation in accordance with the procedures described in paragraph 3.17 of the Procurement Guidelines and in the Matching Grants Operational Manual.

**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. **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.

2. **Least Cost Selection.** Services for assignments estimated to cost less than $100,000 equivalent per contract which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least Cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. **Single Source Selection.** Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection,
may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. **Commercial Practices.** Services estimated to cost less than $50,000 equivalent per contract and required under Part B of the Project may be procured in accordance with commercial practices acceptable to the Bank and with the Matching Grants Operational Manual.

5. **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 and 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.

**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, Works and Services (other than Consultants’ Services)**

   (a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods and services (other than consultants’ services) estimated to cost the equivalent of $250,000 or more, the first two contracts awarded under national competitive bidding procedures and shopping procedures as well as each contract for works and goods estimated to cost $500,000 equivalent or more.

   (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 PSI, 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, 3 and 4 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 $100,000 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 single 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, 3 and 4 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 single 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, works 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, works and non-consultant services 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 PSI, shall utilize standard bidding documents satisfactory to the Bank.

4. Foreign bidders shall not be required to legalize their bids or any documentation related to such bids with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participate in the bidding process.

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.
ANNEX 5

SCHEDULE 8

Implementation Program under the Supplemental Loan

1. General

The Borrower, through MAG, shall:

(a) carry out the Project in accordance with the Project Operational Manual (including all its annexes, as referred to in Section 1.02 (q) of this Agreement) and, except as the Bank shall otherwise agree, shall not amend or waive any provision of the Project Operational Manual (including all its annexes, as referred to in Section 1.02 (q) of this Agreement) without the Bank’s prior written approval. In case of any conflict between the terms of the Project Operational Manual (including all its annexes, as referred to in Section 1.02 (q) of this Agreement) and those of this Agreement, the terms of this Agreement shall prevail;

(b) 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 10 to this Amending Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(c) maintain until the completion of the execution of the Project, the PSI with competent staff in adequate numbers;

(d) maintain until the completion of the execution of the Project, the Executive Council with competent staff in adequate numbers; Said Executive Council shall convene at least semi-annually and shall submit minutes of said meetings to the Bank;

(e) enter into and thereafter implement until the completion of the execution of the Project the Institutional Cooperation Agreement with INRENA, in form and substance satisfactory to the Bank, and except as the Bank shall otherwise agree, shall not assign, amend, abrogate or waive any substantive provision of said Agreement without the Bank’s prior written approval. This Agreement will not be assigned, amended, abrogated or waived if, in the opinion of the Bank, such amendments or waivers may materially and adversely affect the carrying out of Parts C1 (i), C1 (iii) and D of the Project or the achievement of the objectives thereof. In case of any conflict between the
terms of said Agreement and those of this Agreement, the terms of this Agreement shall prevail; and

(f) cause IRH-INRENA to carry out through its own procurement unit the procurement of goods, works and services needed under Parts C1 (i), C1 (iii) and D of the Project in accordance with the provisions of Schedule 7 to this Agreement.

2. Semi-Annual Progress Reports

The Borrower, through PSI and within the framework of SNIP, 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 semi-annual progress report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Schedule, on the progress achieved in the carrying out of the Project during the period 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; and

(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 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 report and the Bank’s views on the matter.

3. Annual Procurement Audits

The Borrower, through PSI, shall:

(a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles, by independent 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. Procurement Plan and Annual Budget

The Borrower, through PSI, shall:

(a) furnish to the Bank, on or about January 31 of each year, starting on the first such date after the Effective Date, the updated 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 month following the presentation of the first updated Procurement Plan, or such later date as the Bank shall request, the plan referred to in subparagraph (a) of this paragraph, 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;

(c) furnish to the Bank, on or about January 31 of each year, starting on the first such date after the Effective Date, the updated Annual Budget, satisfactory to the Bank, including operating costs and detailing all expenditures under the Project for the following twelve months;

(d) review with the Bank, by February 28 of each year, starting on the month following the presentation of the first updated Annual Budget, or such later date as the Bank shall request, the Annual Budget referred to in subparagraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the budget based on its recommendation and the Bank’s views on the matter; and

(e) In case of any conflict between the terms of the Procurement Plan and/or the Annual Budget and those of this Agreement, the terms of this Agreement shall prevail.

5. Matching Grants for Subprojects under Part B of the Project

(a) Without limitation upon the provisions of paragraph 1 of this Schedule, the Borrower, through PSI, shall monitor the activities under Part B of the Project and supervise the Matching Grants for Subprojects in accordance with the provisions of (i) this paragraph; (ii) SNIP; and (iii) the Matching Grants Operational Manual.
(b) The Borrower, through PSI, shall, prior to the submission of the Supplemental Loan withdrawal application for the respective Subproject to be financed through a Matching Grant, furnish to the Bank a report confirming that the respective Matching Grant Agreement has been executed, indicating the name of the Recipient and detailing how the selection was conducted.

(c) The Matching Grants shall be requested by a Recipient up to an aggregate amount of $250,000 equivalent and solely for the purposes of the activities under Part B of the Project.

(d) The Subprojects shall be carried out pursuant to a Matching Grant Agreement, to be concluded between PSI and the Recipient under terms and conditions described in more details in the Matching Grants Operational Manual and which shall include the following:

   (i) a copy of the approved activity with its budget, disbursement and its performance indicators;

   (ii) provisions requiring the financing to be made on a grant basis;

   (iii) the obligation of the Recipient to: (A) carry out the activities with due diligence and efficiency and in accordance with sound administrative, financial, social, cultural heritage, agricultural, natural and environmental standards and in accordance with the provisions of the Matching Grants Operational Manual; (B) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Matching Grants Operational Manual, the operations, the resources and expenditures in respect of the Subproject; and (C) maintain adequate reporting in accordance with the standards specified in the Matching Grants Operational Manual;

   (iv) the requirement that: (A) the goods, works and services to be financed from the proceeds of the Matching Grants shall be procured in accordance with the procedures set forth in Schedule 7 to this Agreement; and (B) such goods, works and services shall be used exclusively in the carrying out of the activities financed by the Matching Grant;

   (v) the right of PSI to inspect, by itself or jointly with the Borrower and the Bank, if the Borrower or the Bank shall so request, the goods, works, sites, plants and constructions included in the
Subprojects financed by the Matching Grants, the operations thereof and any relevant records and documents;

(vi) the right of PSI to obtain all information as the Borrower and the Bank shall reasonably request regarding the administration, operations and financial conditions of the Subprojects financed by the Matching Grants; and

(vii) (A) the right of PSI to suspend and terminate the right of the Recipient to use the proceeds of the Matching Grant; and (B) the obligation of the Recipient to refund any used portion of the Matching Grant to PSI, upon failure by the Recipient to perform any of its obligations under its Matching Grant Agreement.

(e) PSI shall exercise its rights under the Matching Grant Agreements in such manner as to protect its interests and the interests of the Borrower and of the Bank in order to accomplish the purposes of Part B of the Project, and except as the Bank shall otherwise agree, PSI shall not assign or abrogate the Matching Grant Agreements or any provision thereof.
SCHEDULE 9

Supplemental Loan Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Categories” means Categories (1), (2), (3), (5) and (6) 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 “Supplemental Loan Authorized Allocation” means an amount equivalent to $1,000,000 to be withdrawn from the Loan Account and deposited into the Supplemental Loan Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Supplemental Loan 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 Supplemental Loan Special Account has been duly opened, withdrawals of the Supplemental Loan Authorized Allocation and subsequent withdrawals to replenish the Supplemental Loan Special Account shall be made as follows:

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

   (b) (i) For replenishment of the Supplemental Loan Special Account, the Borrower, through PSI, shall furnish to the Bank requests for deposits into the Supplemental Loan Special Account at such intervals as the Bank shall specify.
(ii) Prior to or at the time of each such request, the Borrower, through PSI, 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 PSI, withdraw from the Loan Account and deposit into the Supplemental Loan Special Account such amount as the Borrower, through PSI, shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Supplemental Loan 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 PSI, out of the Supplemental Loan Special Account, the Borrower, through PSI, 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 Supplemental Loan Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower, through PSI, directly from the Supplemental Loan Account in accordance with the provisions of Article V of the Fixed-Spread Loan General Conditions and paragraph (a) of Section 2.09 of this Agreement;

(b) if the Borrower, through PSI, shall have failed to furnish to the Bank, within the period of time specified in Section 4.03 (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 Supplemental Loan 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 Supplemental Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Supplemental 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 Fixed-Spread Loan General
Conditions, shall equal the equivalent of twice the amount of the Supplemental Loan Authorized Allocation.

Thereafter, withdrawal from the Supplemental Loan Account of the remaining unwithdrawn amount of the Supplemental 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 Supplemental Loan 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 Supplemental Loan 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 Supplemental evidence as the Bank may request; or (B) deposit into the Supplemental Loan 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 Supplemental Loan 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 Supplemental Loan 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 Supplemental Loan 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.
The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Borrower and the Bank:

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>End of Project</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Number of WUOs meeting the Eligibility Criteria.</td>
<td>47</td>
</tr>
<tr>
<td>2. Average rate of cost recovery of operation and maintenance for all the WUOs included in the Project.</td>
<td>81%</td>
</tr>
<tr>
<td>3. Number of farmer families benefiting from Part A of the Project.</td>
<td>32,000</td>
</tr>
<tr>
<td>4. Numbered of farmer families benefiting from Part B of the Project.</td>
<td>700</td>
</tr>
<tr>
<td>5. Number of hectares included in the technified irrigation program under Part B of the Project.</td>
<td>3,000</td>
</tr>
<tr>
<td>6. Contribution from farmers included under Part A of the Project.</td>
<td>US$1.9 million</td>
</tr>
<tr>
<td>7. Contribution from Recipients included in the technified irrigation program under Part B of the Project.</td>
<td>US$2.7 million</td>
</tr>
<tr>
<td>8. Number of new water licenses.</td>
<td>190,000</td>
</tr>
</tbody>
</table>