

**OFFICIAL
DOCUMENTS**

LOAN NUMBER 8306-PE

Loan Agreement

(Cusco Regional Development Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated

July 24, 2014

LOAN AGREEMENT

Agreement dated July 24, 2014, between the REPUBLIC OF PERU ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank"). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty five million United States Dollars (USD35,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. The Borrower's Representative for purposes of taking any action required or permitted to be taken pursuant to this Section is the Borrower's Minister of Economy and Finance, or its Director General of Indebtedness and Public Treasury of the Ministry of Finance ("MEF"), and/or any other person whom the Minister and/or the Director shall designate and communicate in writing to the Bank.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Variable Spread ; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.

- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (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: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or *vice versa*; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or *vice versa*; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference 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 the Variable Rate or the Reference 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to carry out the Project pursuant to the provisions of the Subsidiary Agreement, and in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following, namely, that the Recipient and or the Region of Cusco have amended, suspended, abrogated, repealed, waived, or failed to enforce the Subsidiary Agreement, whether in whole or in part, so as to affect materially and adversely the ability of the Region of Cusco to perform any of its obligations thereunder.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in Section 4.01 above occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) the Subsidiary Agreement has been executed on behalf of the Borrower and the Region of Cusco; and
 - (b) PER Plan COPESCO has prepared and adopted the Project Operations Manual in a manner acceptable to the Bank.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the Region of Cusco and is legally binding upon the Borrower and the Region of Cusco in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Bank's approval of the Loan (i.e. no later than May 22, 2015).

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its Minister of Economy and Finance, provided that the Borrower's Director of Indebtedness and Public Treasury, may, by him or herself represent the Borrower to sign amendments and/or notices to this Agreement which are considered of an administrative and non-financial nature. The signing by such Director of an amendment and/or notice shall constitute a representation by the Borrower that any such amendment and/or notice is considered to be administrative and non-financial in nature.
- 6.02. The Borrower's Address is:
- Ministry of Economy and Finance
Jr. Junín 319
Lima, Peru
- Facsimile: +51 (1) 626-9921
- 6.03. The Bank's Address is:
- 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) | 1-202-477-6391 |

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

REPUBLIC OF PERU

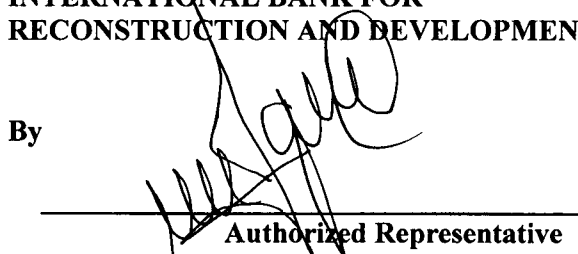
By 

Authorized Representative

Name: LUIS MIGUEL CASTILLA

Title: MINISTRO DE ECONOMIA Y
FINANZAS

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By 

Authorized Representative

Name: JORGE FAMILIAR

Title: VICEPRESIDENTE PARA
AMERICA LATINA Y EL CARIBE

SCHEDULE 1

Project Description

The objective of the Project is to improve the quality of tourism and solid waste management services and increase the resilience of the tourism sector to the impacts of natural disasters in the Provinces of Calca, Urubamba and Cusco.

The Project consists of the following parts:

Component 1: Development and Consolidation of Tourism Services

1. Consolidating classic tourist attractions in the Sacred Valley by improving and expanding existing infrastructure through the provision, improvement and/or construction of, *inter alia*: access ways to touristic sites; internal trails (including footpath surfaces, staircases, bridges and railings); internal signage (both informative and interpretive); traffic distribution points; lighting; drainage; touristic centers; toilets; ticketing offices; parking lots; craft markets; and other small ancillary infrastructure in touristic sites.
2. Developing and implementing a pilot competitive fund (*fondo concursable*) to provide technical assistance to private small and micro enterprises in order to improve the competitiveness of touristic products and services.
3. Strengthening the institutional capacity of agencies and institutions involved in the operation of touristic activities in the Sacred Valley, in order to: (i) commercialize and position touristic products and services in the domestic and international markets; and (ii) collect touristic related data and prepare a database for the evaluation and analysis of the development of the sector.

Component 2: Integrated Solid Waste Management

Improving the local capacity to clean streets and public places and to efficiently collect, transport and dispose of solid waste in the Provinces of *Calca*, *Urubamba* and *Cusco* through, *inter alia*: (i) the construction of three (3) new landfills, one in each of the Provinces of *Calca*, *Urubamba* and *Cusco*; (ii) the strengthening of provincial and municipal administration's institutional capacity in order to administer the management of solid waste facilities and services; and (iii) the investments in solid waste services as the district level to improve collection, recycling and the cleaning of streets and public spaces; and (iv) the carrying out of communication campaigns in local communities for the promotion of adequate waste management practices and environmental education.

Component 3: Disaster Risk Management and Disaster Preparedness

Increasing the resilience of the local population and tourism infrastructure to natural disasters through, *inter alia*: (i) designing and implementing early warning systems to anticipate the flooding of the *Vilcanota* and *Patacancha* rivers in the Sacred Valley and *Ollantaytambo*; (ii) designing and implementing an integrated approach to the reduction

of geological and climatic risks in the micro-basin of *K'itamayu* river in *Pisac*; (iii) designing and implementing an integrated approach to mitigate external geodynamic risks in the *Ccochoq* river basin in the Province of *Calca*; and (iv) updating the disaster risk management plan for the Sacred Valley, including plans for the evacuation of tourists, and carrying out evacuation training and simulation exercises with local population and tourists.

Component 4: Institutional Strengthening, Management and Monitoring and Evaluation

Strengthening the institutional capacity of PER Plan COPESCO, to enhance the institutional capabilities required for the successful implementation of Project activities, including compliance with procurement, safeguards, financial management, and monitoring and evaluation requirements.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project by the Region of Cusco, the Borrower shall on-lend the proceeds of the Loan to the Region of Cusco under a subsidiary agreement to be entered into between the Borrower and the Region of Cusco, under terms and conditions approved by the Bank (“Subsidiary Agreement”); which shall include, *inter alia*:
 - (a) the roles and responsibilities of the Region of Cusco, acting through PER Plan COPESCO, with regard to the implementation of the Project, including compliance with the covenants set forth in Section 5.01 and 5.02 of this Agreement and the provision of this Schedule;
 - (b) the obligation of the Region of Cusco, acting through PER Plan COPESCO, to carry out the Project in accordance with Safeguard Documents;
 - (c) the obligation of the Region of Cusco, acting through PER Plan COPESCO, to comply with the requirements, procedures, criteria and standards set forth in the General Conditions, the Procurement Guidelines, the Consultants Guidelines, the Anti-Corruption Guidelines, the Project Operations Manual and the CF Implementation Manual; and
 - (d) the obligation of the Region of Cusco, acting through PER Plan COPESCO, to ensure that the beneficiaries of the private small and micro enterprises receiving assistance from the competitive fund referred to in Component 1.2 of the Project abide by, and comply with, the Anti-Corruption Guidelines.
2. The Borrower shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, waive, or fail to enforce the Subsidiary Agreement or any of its provisions, whether in whole or in part.
3. Notwithstanding the foregoing, in the event of a conflict between the provisions of the foregoing Subsidiary Agreement, on the one side, and those of this Agreement (including the additional instructions referred to in Section IV.A.1 of this Schedule), on the other side, the provisions and instructions for this Agreement shall prevail.

B. Institutional Arrangements

1. The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to:

- (a) establish by no later than December 31, 2013, and thereafter operate and maintain throughout the period of implementation of Project activities, a Project coordination committee (the "PCC"); which committee shall have membership, functions, powers, resources and competencies acceptable to the Bank as defined in the Project Operations Manual, as shall be required for it to: (i) provide overall inter-agency cooperation and general oversight of Project implementation; (ii) review the various Project Reports and suggest any necessary Project adjustments; and (iii) assess PER Plan COPESCO's adequate implementation of Project activities.
 - (b) establish by no later than December 31, 2013, and thereafter operate and maintain throughout the period of implementation of Project activities, three technical working groups ("Technical Working Groups"), one for each of Components 1, 2 and 3 of the Project, which working groups shall be comprised by qualified and experienced technical experts in the respective fields, in adequate numbers and under terms of reference acceptable to the Bank, as defined in the Project Operations Manual, in order to provide technical advice to PER Plan COPESCO on the planning and execution of Project activities, as well as carry out technical reviews of the implementation thereof; and
 - (c) carry out the Project using its existing structure and shall have dedicated staff assigned to coordinate and manage Project implementation, with experience and qualifications defined in the Project Operations Manual, and vested with financial resources, functions and competencies required for the carrying out of the day-to-day implementation of Project activities, including the inter-institutional coordination with other line agencies, the carrying out of planning, procurement, financial management, monitoring and reporting activities, the screening of Project activities pursuant to the ESMF, as well as the implementation of, and monitoring and enforcement of contractors' compliance with, the provisions of the Safeguard Documents.
2. The Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to:
- (a) strengthen PER Plan COPESCO's general administrative office within two (2) months as of the Effective Date through the selection and contracting of an experienced accountant and an accountant assistant acceptable to the Bank, all under terms of reference satisfactory to the Bank; and
 - (b) ensure that such accountant and accountant assistant are maintained throughout Project implementation.

C. Project Documents

The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to:

- (a) implement the Project in accordance with the Project Operations Manual and the CF Implementation Manual; provided however that in the event of conflict between the provisions of said manuals, on the one hand, and those of this Agreement, on the other hand, the provisions of this Agreement shall prevail; and

- (b) refrain from amending, suspending, waiving, and/or voiding any provision of the Project Operations Manual and/or the CF Implementation Manual, whether in whole or in part, without the prior written concurrence of the Bank.

D. Anti-Corruption

The Borrower shall ensure, and cause the Region of Cusco to ensure, that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Competitive Fund for Private Small and Micro Enterprises

1. For purposes of developing and implementing the pilot competitive fund (*fondo concursable*) set forth in Component 1.2 of the Project, the Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to:

- (a) develop and adopt, and thereafter apply throughout the period of implementation of activities under Component 1.2 of the Project, an implementation manual (the "CF Implementation Manual") acceptable to the Bank, setting forth, *inter alia*: (i) the allocation of responsibilities among the different implementation agencies and units; (ii) the eligibility criteria for the selection of private small and micro enterprises receiving the Project's in-kind (technical assistance) support; (iii) the composition, roles and operating procedures for the committee evaluating and selecting the Project beneficiaries; (iv) the screening protocols for the proposals/requests submitted by eligible private small and micro enterprises interested in Project's support; (v) a template Sub-project Agreement setting forth the standard terms and conditions to be subscribed by PER Plan COPESCO, on behalf of the Region of Cusco, with any selected beneficiary; and (vi) the monitoring, reporting and evaluation requirements; and
- (b) publicly call for private small and micro enterprises to submit proposals for the provision of technical assistance under the Project for the development of their business opportunities and/or the improvement of the quality of their services/products, which proposals shall be: (i) deemed technically feasible in accordance with criteria acceptable to the Bank; and (ii) designed in accordance with appropriate business, environmental and social standards, acceptable to the Bank, as set forth in the CF Implementation Manual.

2. Upon the selection of a proposal submitted by a private small or micro enterprise, pursuant to paragraph 1 above, the Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to enter into a Sub-project Agreement with the selected beneficiary, under terms and conditions acceptable to the Bank, which agreement shall provide, *inter alia*, that:

- (a) the beneficiary declares its commitment to the objective of the Project; and undertake to conduct its operations and affairs in accordance with sound environmental and social practices consistent with the ESMF;

- (b) the beneficiary agrees that the procurement responsibilities for the provision of in-kind technical assistance be vested in PER Plan COPESCO. Notwithstanding the foregoing, the beneficiary shall undertake to abide and comply with the Anti-Corruption Guidelines;
 - (c) the beneficiary: (i) allows PER Plan COPESCO and/or the Bank to carry out supervision and monitoring activities of the beneficiary's implementation of the approved proposal; and (ii) accepts random and unannounced physical or documentary inspections by PER Plan COPESCO and/or the Bank in respect of the technical services received and/or activities implemented in connection therewith;
 - (d) if so determined by the social and environmental assessment required under Section I.G.2 below, the beneficiary undertakes to implement its respective proposal in accordance with the respective Safeguard Documents, which documents shall have been prepared prior to the signing of the Sub-project Agreement; and
 - (e) the Region of Cusco, acting through PER Plan COPESCO, have the right to suspend or terminate the technical assistance to the selected beneficiary: (i) upon failure of the respective beneficiary to perform any of its obligations under the Sub-project Agreement, or upon notice by the Bank that it intends to exercise any of its remedies under Article VII of the General Conditions; and (ii) upon the Bank sanctioning the beneficiary under the Anti-Corruption Guidelines.
3. The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to exercise its rights and carry out its obligations under the Sub-project Agreements in such manner as to protect the interests of the Borrower, the Region of Cusco, and the Bank and to accomplish the purposes of the Loan.

F. Piloting New Contractual Mechanisms

For purposes of carrying out the activities under Component 2 of the Project, the Borrower shall cause the Region of Cusco to procure – jointly with the Municipalities of *Calca*, *Urubamba* and *Cusco* (as the case may be), in accordance with the Procurement Guidelines, the civil works for the development and the subsequent operation and maintenance of their respective landfills, pursuant to “*design, build and operate*” agreements to be subscribed among PER Plan COPESCO, on behalf of the Region of Cusco, the respective Municipality where the landfill is located, and the winning constructor/landfill concessionaire; each such contract to be prior-reviewed and subject to terms and conditions satisfactory to the Bank.

G. Safeguards

- 1. The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to:
 - (a) carry out the Project in accordance/compliance with the Environmental and Social Impact Assessments (“ESIAs”), the Environmental and Social

Management Plans (“ESMPs”), the Environmental and Social Management Framework (“ESMF”), and the instruments to be prepared pursuant to paragraph 2 of this Sub-Section, and pursuant to the objectives, policies, procedures, time schedules, compensation arrangements and other provisions set forth therein, in a manner and substance satisfactory to the Bank; and

- (b) refrain from taking any action which would prevent or interfere with the implementation of the Safeguard Documents, including any amendment, suspension, waiver, and/or avoidance of any provision of the Safeguard Documents, whether in whole or in part, without the prior written concurrence of the Bank.
2. Without limitation of the provision of the foregoing paragraph 1, the Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to refrain from inviting bids, and/or selecting any contractors, for the activities to be implemented under Components 1 and 3 of the Project, until and unless: (a) detailed environmental and social impact assessments for the respective activities have been carried out pursuant to provisions of the ESMF, in a manner and substance acceptable to the Bank; and (b) whenever prescribed by the ESMF, the necessary environmental and social management plans (including indigenous peoples plans, resettlement action plans and chance finding procedures) have been prepared, reviewed and agreed with the Bank and locally disclosed for free and public consultation in local languages.
3. The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to ensure that, prior to the bidding of civil works contracts under the Project:
- (a) all necessary governmental permits and clearances for such civil works, shall have been obtained from the competent governmental authority/ies and submitted to the Bank;
 - (b) all conditions imposed by the governmental authority/ies under such permit(s) or clearance(s) shall have been complied with/fulfilled;
 - (c) all resettlement measures set forth in the applicable Safeguard Documents for such civil works shall have been fully executed, including the full payment of compensation prior to displacement and/or the provision of relocation assistance to all Displaced Persons, as per the entitlements provided in the ESMPs and or the resettlement action plans prepared pursuant to the foregoing paragraph 2;
 - (d) all land acquisition required for such civil works shall have been concluded and such land shall be free of encumbrances and ready to be handed over to the winning bidder; and
 - (e) for purposes of each individual landfill under Component 2 of the Project, an individual trust fund (*fideicomiso*) for the financing of the operation and maintenance of such landfill shall have been established jointly by the Region of Cusco and the respective municipal government of *Calca*, *Urubamba* or *Cusco*,

as the case may be, for the benefit of the landfill operator, all under terms and conditions acceptable to the Bank.

4. The Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to ensure that each contract for civil works under the Project includes the obligation of the relevant contractor to comply with the relevant Safeguard Documents applicable to such civil works commissioned/awarded pursuant to said contract.
5. Without limitation to Section 3.01 of this Agreement, the Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to ensure that the following Project expenditures are financed exclusively out of the Region of Cusco's own resources, and, to this end, shall cause the Region of Cusco to provide, promptly as needed, the funds, services, facilities and other resources required therefor, namely:
 - (a) all land acquisition required for the purpose of the Project; and
 - (b) any compensation, resettlement and rehabilitation payment to Displaced Persons in accordance with the ESMPs and or the resettlement action plans prepared pursuant to the forgoing paragraph 2.
6. For purposes of Component 3 of the Project, the Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to:
 - (a) ensure that the terms of reference of any consultancy contract entered under such Component shall be satisfactory to the Bank, following its review thereof, and to that end, such terms of reference shall duly incorporate the requirement of the Bank's Safeguards Policies then in force, as applied to the advice conveyed through such technical assistance; and
 - (b) refrain from carrying out any activity (whether an investment or technical/engineering design), that in the opinion of the Bank, might involve: (i) the use of an International Waterway in a manner that could adversely: (A) change the quality or quantity of water flows to the other riparians; or (B) affect the other riparians' possible water use; and/or (ii) the potential pollution of an International Waterway.

H. Grievance Mechanism

The Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to strengthen by no later than sixty (60) days as of the Effective Date, and thereafter maintain and operate throughout the period of implementation of Project activities, a grievance redressal mechanism satisfactory to the Bank, in order to address in a timely, transparent and independent manner, any grievance complaints in relation to the Project filed by any third parties (including, but not limited to, any Displaced Persons) in relation to the implementation of Project activities by PER Plan COPESCO (on behalf of the Region of Cusco) and or any of its consultants and/or contractors, and their adherence to, and compliance with, the respective ESIA's, ESMPs, ESMF and/or any Safeguard Documents prepared thereunder.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Project Operations Manual. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such report.
2. The Borrower shall cause the Region of Cusco, acting through PER Plan COPESCO, to prepare and furnish to the Bank by no later than six (6) months after the Closing Date, the report on the execution of the Project set forth in Section 5.08 (c) of the General Conditions.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain, and cause the Region of Cusco (acting through PER Plan COPESCO) to maintain, a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause the Region of Cusco (acting through PER Plan COPESCO) to prepare and furnish to the Bank, as part of the Project Report after the end of each calendar semester, interim financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements, and cause the Region of Cusco (acting through PER Plan COPESCO) to have its Financial Statements, audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower and the Region of Cusco, commencing with the fiscal year in which the first withdrawal was made. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.
4. For purposes of paragraph 3 above, the Borrower shall select and contract, by no later than six (6) months as of the Effective Date, and thereafter maintain, throughout the implementation of the Project, the services of a qualified and experienced auditor, acceptable to the Bank, under terms of reference satisfactory to the Bank, to serve as independent external auditor for a period of at least three (3) consecutive years.

Section III. Procurement

A. General

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan:

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| Procurement Methods: |
| (a) Limited International Bidding. |
| (b) National Competitive Bidding subject to the additional provisions set forth in paragraph 3 below. |
| (c) Shopping. |
| (d) Direct Contracting. |
| (e) Procurement under Public Private Partnership Arrangements in accordance with procedures which have been found acceptable to the Bank. |
| (f) Force Account. |

3. **Special Provisions for National Competitive Bidding.** In addition and without limitation or restriction to any other provisions set forth in this Section or the Procurement Guidelines, the following provisions shall govern the procurement of goods,

works and non-consulting services with National Competitive Bidding procedures under this Section:

- (a) foreign bidders shall not be required to be locally registered as a condition of participation in the selection process;
- (b) no reference value (*precio referencial*) shall be required for publication in the bidding documents or used for the purpose of bid evaluation;
- (c) 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;
- (d) foreign bidders shall be allowed to participate in National Competitive Biddings without restriction, and shall not be subject to any unjustified requirement which will affect their ability to bid such as, but not limited to, the requirement to authenticate (*legalizar*) their bidding documents or any document related to such bidding documents with either Peruvian Consulates, the Borrower's Ministry of Foreign Affairs, or any Peruvian authorities as a prerequisite of bidding; and
- (e) the Region of Cusco, acting through PER Plan COPESCO, shall use standard bidding documents and standard evaluation formats; all satisfactory to the Bank.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan:

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| Procurement Methods: |
| (a) Quality-based Selection. |
| (b) Selection based on Consultants' Qualifications. |
| (c) Selection under a Fixed Budget. |
| (d) Least Cost Selection. |
| (e) Single-source Selection of consulting firms. |
| (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants. |
| (g) Single-source procedures for the Selection of Individual Consultants. |

3. In addition and without limitation or restriction to any other provisions set forth in this Section or the Consultant Guidelines, the following provisions shall govern all procurement of consultants' services:
 - (a) foreign consultants shall not be required to be locally registered as a condition of participation in the selection process;
 - (b) foreign consultants shall not be required to authenticate (*legalizar*) any documentation related to their participation in the selection process with Peruvian Consulates, the Borrower's Ministry of Foreign Affairs, or any Peruvian authorities as a condition of participation in said selection process;
 - (c) the Region of Cusco, acting through PER Plan COPESCO, shall use standard requests for proposals and standard evaluation formats; all satisfactory to the Bank;
 - (d) foreign consultants, either individuals or firms, shall not be required to pay fees to the Peruvian Consultants' Association that are different from those required for Peruvian consultants; and
 - (e) No individual consultant financed out of the proceeds of the Loan shall, at the time he or she is carrying out his or her contractual obligations as consultant, hold civil service office or any other position in any agency or instrumentality of the Borrower, nor shall such consultant have any right to re-entry into any such office or position upon the conclusion of his or her consulting services.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

| Category | Amount of the Loan Allocated (expressed in USD) | Percentage of Expenditures to be financed |
|--|---|---|
| (1) Goods, works, non-consulting services, consultants' services (except for the technical assistance to private small and micro enterprise under the pilot competitive fund under Component 1.2 of the Project), and Training and Workshops under Component 1 of the Project. | 15,916,647 | 100% |
| (2) Goods, non-consulting services, consultants' services provided as technical assistance to private small and micro enterprise under the pilot competitive fund of Component 1.2 of the Project. | 2,868,750 | 100% |
| (3) Goods, works, non-consulting services, consultants' services, and Training and Workshops under Component 2 of the Project. | 13,821,707 | 100% |
| (4) Goods, works, non-consulting services, consultants' services, and Training and Workshops under Component 3 of the Project. | 1,917,464 | 100% |
| (5) Goods, non-consulting services, consultants' services, Training and Workshops and Incremental Operating Costs, including financial audits under Component 4 of the Project. | 475,432 | 100% |
| TOTAL AMOUNT | 35,000,000 | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or
 - (b) under Category (2) unless and until, the PER Plan COPESCO has prepared and adopted a CF Implementation Manual for the pilot competitive fund (*fondo concursable*) in a manner and substance satisfactory to the Bank.
2. The Closing Date is January 31, 2019.

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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

| Principal Payment Date | Installment Share (Expressed as a Percentage) |
|---|--|
| On each April 15 and October 15 Beginning October 15, 2018 through October 15, 2020 | 20% |

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn 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, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the 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 Withdrawn Loan Balance is 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.

APPENDIX

Section I. Definitions

1. “Abbreviated Resettlement Plans” means, collectively, the resettlement plans dated July 2013, (acceptable to the Bank) prepared and adopted by PER Plan COPESCO in relation to the proposed construction of the solid waste landfills to be located in the Provinces of *Calca* and *Cusco*, respectively (Component 2 of the Project), included as Annex 8 to the ESMF, and defining the protocols and procedures to ensure the payment of compensation at full replacement costs and/or the provision of resettlement assistance to Displaced Persons on account of loss of assets, access restrictions and/or loss of income sources.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “Bank’s Safeguards Policies” means the Bank’s operational policies and procedures, set forth in the Bank’s operational manual and identified as OP/BP 4.01, 4.04, 4.09, 4.10, 4.11, 4.12, 4.36, 4.37, 7.50 and 7.60, as said manual is published under www.WorldBank.org/opmanual.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “CF Implementation Manual” means the manual to be prepared and adopted by the PER Plan COPESCO for the implementation of the competitive fund for private small and micro enterprise, referred to in Component 1.2 of the Project, pursuant to Section I.E.1(a) of Schedule 2 to this Agreement.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
7. “Displaced Persons” means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impact on the livelihoods of such persons.
8. “Environmental and Social Impact Assessments” and the acronym “ESIAs” mean, collectively, the social and environmental impact assessments dated July 2013 and June 2013 (acceptable to the Bank), prepared by PER Plan COPESCO, in relation to the proposed construction of the solid wastes landfills to be located in the Provinces of *Calca*, *Urubamba* and *Cusco*, respectively, which assessments evaluate the likely positive and negative environmental and social impact of Project activities; as the same may be

revised, updated or supplemented from time to time with the prior written concurrence of the Bank.

9. “Environmental and Social Management Framework” and the acronym “ESMF” means policy framework dated July 2013 (acceptable to the Bank), prepared and adopted by PER Plan COPESCO in respect of the proposed activities under the Project (other than the activities under Component 2 (i) of the Project), setting out the criteria and procedures for: (i) the screening of Project activities pursuant to Section I.G.2 of Schedule 2 to this Agreement, and the identification of any adverse and positive environmental and social impacts caused, or expected to be caused, on account of their implementation (including protocols chance finding of cultural/historical assets/artifacts); and (ii) the preparation, when necessary, of the respective *ad hoc* environmental and social management plans as prescribed in the above referred Section. The ESMF includes the Indigenous Peoples’ Planning Framework and the Resettlement Policy Framework, and may be revised, updated or supplemented, from time to time, subject to the prior written concurrence of the Bank.
10. “Environmental and Social Management Plans” and the acronym “ESMPs” mean, collectively, the environmental and social managements plans dated July, 2013 (acceptable to the Bank), prepared and adopted by PER Plan COPESCO in respect of the proposed construction of the solid waste landfills to be located in the Provinces of Calca, Urubamba and Cusco, respectively, setting out mitigation, enhancement, monitoring and/or institutional measures, required to: (i) eliminate any adverse environmental and social impact of the respective activities; (ii) offset them, or reduce them to acceptable levels; and/or (iii) enhance any positive impacts thereof (including chance finding protocols for the handling of physical cultural resources, and when applicable the Indigenous Peoples Plans, the Abbreviated Resettlement Plans and the Social Inclusion Plan); as such plans may be revised, updated or supplemented from time to time with the prior written concurrence of the Bank.
11. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
12. “Incremental Operating Costs” the reasonable incremental expenses incurred on account of Project management and monitoring (which expenditures would not have been incurred absent the Project), including, but not limited to: salaries of contractual staff (other than consultants), office rental, office supplies, utilities, insurance (excluding life insurance), communications expenses, operation and maintenance of offices, vehicles, equipment and computers, supervision costs such as travel costs, lodging, and *per diems*, advertising expensed and bank charges, media projections, newspaper subscriptions, periodicals, and stationary costs; but excluding salaries and salary top-ups of the Borrower’s civil servants.
13. “Indigenous Peoples” means any distinct, vulnerable, social and cultural group within the territory of the Borrower, that: (i) self-identifies as such and claims, and is recognized by others as, having a distinguishable cultural identity; (ii) has collective attachment to geographically distinct habitats or ancestral territories in the Project area and to the

natural resources in these habitats and territories; and (iii) has customary cultural, economic social and political institutions that are separate from those of the dominant society and culture; and (iv) has an indigenous language, often different from the official language of the Borrower or region.

14. “Indigenous Peoples Plans” means, collectively, the plans dated August 2013 (acceptable to the Bank), prepared and adopted by PER Plan COPESCO in respect of the proposed construction of the solid wastes landfills to be located in the Provinces of *Calca* and *Urubamba*, respectively (and included in the ESMPs), setting out the measures designed to ensure meaningful consultation with, and informed participation of, Indigenous Peoples and their communities affected by the Project, as well as their participation in the benefits derived from the Project in a culturally appropriate and socially inclusive manner; as such plans may be revised, updated or supplemented from time to time with the prior concurrence of the Bank.
15. “Indigenous Peoples’ Planning Framework” means the policy framework dated July 2013 (acceptable to the Bank), prepared and adopted by PER Plan COPESCO in respect of the proposed activities under the Project (other than activities under Component 2 (i) of the Project), and included in the ESMF, setting out the criteria and procedures for the screening of Project activities to assess the presence of Indigenous Peoples in the selected Project sites or the areas of influence of Project activities, as well as the procedures for the preparation of *ad hoc* indigenous peoples plans in order to ensure meaningful consultation with, and informed participation of, Indigenous Peoples and their communities affected by the Project, including their participation in the benefits derived from the Project in a culturally appropriate and socially inclusive manner.
16. “International Waterway” means: (a) any river, canal, lake, or similar body of water that form a boundary between, or any river or body of surface water that flows through, two or more countries; (b) any tributary or other body of surface water that is a component of any waterway described in (a) above; and (c) any bay, gulf, strait, or channel bounded by two or more countries, or, if within one country, recognized as a necessary channel of communication between the open sea and other countries, and any river flowing into such waters.
17. “MEF” means the Ministry of Economy and Finance of the Borrower, or any successor thereto.
18. “*Ollantaytambo*” means the Borrower’s District of *Ollantaytambo* in the Province of *Urubamba*, Region of Cusco.
19. “PCC” means the Project Coordination Committee referred to in Section I.B.1(a) of Schedule 2 to this Agreement.
20. “PER Plan COPESCO” means the special commission established by the Borrower pursuant to Supreme Decree No. 001-69-IC/DS, dated April 25, 1969, under the auspices of the Borrower’s Ministry of Industry and Tourism, for the supervision of the touristic and cultural plan PERU-UNESCO, and subsequently transferred to the Region of Cusco pursuant to the Borrower’s Supreme Decree No. 074-2004-PCM of October 24, 2004.

21. “*Pisac*” means the Borrower’s District of *Pisac* in the Province of *Calca*.
22. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011.
23. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated August 9, 2013 in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
24. “Project Operations Manual” means the manual to be adopted by PER Plan COPESCO, pursuant to Section 5.01(b) of this Agreement setting forth the guidelines and procedures for the implementation of the Project, including: (i) the allocation of functions, powers, and responsibilities between the PCC and the Technical Working Groups; (ii) the financial management arrangements, activity planning and budgetary procedures; (iii) the mechanism to ensure compliance with procurement requirement and the Safeguards Documents; and (iv) the monitoring and evaluation and reporting requirements/framework for Project activities; as said manual may be amended from time to time subject to the prior concurrence of the Bank.
25. “Provinces of *Calca*, *Urubamba* and *Cusco*” means the provinces (administrative subdivision) of *Calca*, *Urubamba* and *Cusco* pertaining to the Region of Cusco, or the respective successors thereto.
26. “Region of Cusco” means the Borrower’s politically, economically and administratively autonomous Region of Cusco, established/acknowledged under Chapter XIV (on Decentralization) of the Political Constitution of the Republic of Peru, as modified pursuant to Law 27680 of March 7, 2002, or any successor thereto.
27. “Resettlement Policy Framework” means the policy framework dated July 2013 prepared and adopted by PER Plan COPESCO in respect of the proposed activities under the Project (other than activities under Component 2 (i) of the Project), setting out the criteria and procedures for: (i) the screening of Project activities pursuant to Section I.G.2 of Schedule 2 to this Agreement, and the identification of any Displaced Persons on account of their implementation; and (ii) the preparation of the respective resettlement action plans as prescribed in the above referred Section, defining protocols and procedures to ensure the payment of compensation at full replacement cost, and/or the provision of resettlement, assistance to Displaced Persons; as such framework may be revised, updated or supplemented, from time to time, subject to the prior written concurrence of the Bank.
28. “Sacred Valley” means the valley of the Urubamba river between *Ollantaytambo* and *Pisac* located within the Region of Cusco.
29. “Safeguard Documents” means, collectively, the ESIA’s, the ESMP’s, the ESMF, the Indigenous Peoples Plans, the Abbreviated Resettlement Plans, the Social Inclusion Plan

and the documents/instruments (to be) prepared pursuant to paragraph 2 of Section I.G of Schedule 2 to this Agreement.

30. “Social Inclusion Plan” means the management plan dated June 2013 (acceptable to the Bank), prepared and adopted by PER Plan COPESCO in respect of the implementation of Component 2 of the Project, setting out measures to assist economically displaced waste pickers in their efforts to improve their working conditions and increase their income.
31. “Sub-project Agreement” means each and any of the written agreements to be entered into by PER Plan COPESCO, on behalf of the Region of Cusco, and selected, private small and micro enterprise pursuant to Section I.E.2 of Schedule 2 to this Agreement.
32. “Subsidiary Agreement” means the agreement referred to in Section I.A.1 of Schedule 2 to this Agreement.
33. “Technical Working Groups” means, collectively, the technical working groups referred to in Section I.B.1(b) of the Schedule 2 to this Agreement.
34. “Training and Workshops” means the reasonable expenditures (other than consultants’ and non-consulting services) incurred by the Borrower for the carrying out of training activities, and/or study tours, conferences and workshops conducted and/or attended by PER Plan COPESCO’s staff and/or the Project’s stakeholders, including reasonable costs of purchase and printing/publication of materials, rental of training facilities, course/registration fees, travel, subsistence, and *per diem* for trainers and trainees.