Loan Agreement

(Sierra Rural Development Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated May 26, 2008
LOAN AGREEMENT

Agreement dated May 26, 2008, between 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 twenty million Dollars ($20,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 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 the Borrower’s Director General de la Dirección Nacional del Endudamiento Publico of MEF, and any person whom he or she shall designate 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 LIBOR for the Loan Currency plus the Fixed 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 (d) 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 all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the 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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III — PROJECT

3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower, through MARENASS, shall carry out the Project all 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 Event of Suspension consists of the following, an action has been taken or a policy has been adopted to reverse any action under the Project in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objective of the Project or the execution capacity of MARENASS or any successor entity thereof.

4.02. The Additional Event of Acceleration consists of the following, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the MARENASS Regulation has been duly updated by all necessary governmental and corporate action to make it consistent with MARENASS’ role in the Project.

5.02. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Bank’s approval of the Loan which expire on October 24, 2008.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Minister of Economy and Finance or its Director of Public Indebtedness.

6.02. The Borrower’s Address is:

Ministry of Economy and Finance
Jr. Junín 319
Lima, Perú
Facsimile: (511) 4154264
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: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

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

REPUBLIC OF PERU

By /s/ Luis Carranza Ugarte
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ C. Felipe Jaramillo
Authorized Representative
SCHEDULE 1

Project Description

The objective of the project is to assist the Borrower in improving the assets and economic conditions of rural families in selected areas of the Borrower’s Apurímac, Ayacucho, Huancavelica, Junin, Huánuco, and Pasco regions, and strengthen government capacity to implement an integrated Sierra development strategy.

The Project consists of the following parts:

**Part 1: Promotion of Rural Businesses through Subprojects**

(a) Design and implementation of a communication and dissemination strategy of information on Rural Business’ Subprojects amongst rural producers and stakeholders.

(b) (i) Carrying out of pre-investment studies; and (ii) provision of pre-investment financing and technical assistance to support the creation of viable Rural Business’ Subproject proposals.

(c) Co-financing the carrying out of Rural Business’ Subprojects.

**Part 2: Community Development through Subprojects**

(a) Promotion and dissemination of information on Community Development Subprojects amongst rural communities and stakeholders in selected areas of the Borrower’s territory with limited access to markets.

(b) (i) Carrying out of pre-investment studies; and (ii) provision of pre-investment financing and technical assistance to support the design and preparation of viable Community Development Subproject proposals.

(c) Co-financing the carrying out of Community Development Subprojects.

**Part 3: Sierra Coordination, Project Management and Monitoring**

(a) Establishment and institutional strengthening of the SDU to promote economic development in the rural Sierra through, *inter alia*, the provision of technical assistance and training, the carrying out of workshops and technical studies, as well as the design and implementation of a development program and an integral rural strategy for the Sierra.

(b) Establish, at the offices of MARENASS, an adequately functioning monitoring and evaluation (M&E) system to track progress of the Project.
(c) Support MARENASS in its day-to-day management of the Project, through the provision of technical advisory services, the acquisition of equipment and vehicles and other goods required to carry out Project activities.
SCHEDULE 2

Project Execution

Section I.

A. Institutional Arrangements

1. At all times during the execution of the Project, the Borrower shall maintain, until completion of the Project, a unit within MINAG to be responsible for the overall coordination and management of the Project (MARENASS), such unit to maintain adequate staffing, functions and responsibilities in accordance with the Operational Manual, including, *inter alia*, the following responsibilities:

   (a) overall responsibility for implementing, planning, coordinating and monitoring of Project activities, both at the Borrower’s national and regional level;

   (b) orientation and supervision of the work of all the Project staff at the national and regional levels;

   (c) carrying out of the Project’s dissemination and communication strategy;

   (d) revision and updating of the Project’s Operational Manual;

   (e) preparation of the Project progress reports;

   (f) elaboration of the annual operational plans for the Project;

   (g) carrying out of Project procurement and contracting of the required goods, works and consultant’s services;

   (h) review and clearance of all the contracts necessary for Project execution;

   (i) carrying out of the financial management of the Project, including without limitation, the issuance of financial statements and reports as per Section II of this Schedule and the preparation and maintenance of administrative, procurement and financial records;

   (j) preparation and submission to the Bank of: (i) disbursement requests; and (ii) Project information and Project management reports in accordance with the formats established in the Operational Manual; and
(k) provision of assistance and documentation to external independent auditors.

2. The Borrower, through MINAG, shall maintain at all times during the execution of the Project:

(a) a Project steering committee (Consejo Directivo), presided by the Borrower’s Minister of Agriculture or its designated representative, with the overall responsibility for providing policy oversight and guidance for the implementation of the Project and with powers and composition as defined in the Operational Manual (the “MARENASS’ Steering Committee”). The MARENASS’ Steering Committee shall be responsible, inter alia, for:

(i) provision of support and of a coordination framework for the implementation of the Project;

(ii) establishment of strategic guidelines for the implementation of the Project;

(iii) review of the progress, evaluation, auditing and procurement reports issued by MARENASS for the Project; and

(iv) oversight of compliance with Project norms and objectives and supervision of MARENASS’ execution of the Project.

3. The Borrower, through the MARENASS’ Steering Committee, shall be responsible to conduct the selection process of the Executive Director of MARENASS, the Manager of MARENASS, and the coordinators of the three technical units (Rural Business Coordinator, Community Development Coordinator and Monitoring and Evaluation Coordinator), following competitive selection procedures.

B. Implementation Arrangements

The Borrower, through MARENASS shall:

(a) carry out the Project and ensure that Subprojects are carried out in accordance with the Operational Manual, including the Environmental Assessment (EA), and except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank’s prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail; and
(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 the Operational Manual (the Performance Indicators), the carrying out of the Project and the achievement of the objective thereof.

C. **Operational Manual**

1. The Borrower, through MARENASS, shall carry out the Project in accordance with an operational manual satisfactory to MEF (through the Dirección General de Programación Multianual del Sector Público) and the Bank (the Operational Manual), such manual to include, *inter alia*:

   (a) the procedures for the carrying out, monitoring and evaluation of the Project (including the procurement, disbursement, financial, social and environmental requirements thereof);

   (b) the roster of the Borrower’s regions and areas that are eligible to participate in the Project;

   (c) the administrative rules and procedures for planning, preparing, proposing, contracting, financing, carrying out and supervising the Subprojects, including the detailed criteria and procedures for their selection;

   (d) the EA and the Procurement Plan; and

   (e) the Performance Indicators.

2. The Operational Manual may be amended by the Borrower when necessary, with the prior approval of the Bank. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

D. **Environmental and Social Provisions**

1. Without limitation to the provisions of Section 5.01 (b) of the General Conditions and of Section I.B. of this Schedule, the Borrower, through MARENASS, shall carry out the Project in accordance with the provisions and recommendations of the EA (including provisions regarding pest management and social policies).

E. **Procurement Plan**

1. The Borrower, through MARENASS, shall:
(a) furnish to the Bank, on or about May 15 and November 15 of each year during Project implementation, starting on November 15, 2007, the updated Procurement Plan, satisfactory to the Bank, detailing all procurement activities under the Project for the following twelve months; and

(b) review with the Bank, by June 15 and December 15 of each year, starting on June 15, 2008, 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.

2. In case of any conflict between the terms of the Procurement Plan and those of this Agreement, the terms of this Agreement shall prevail.

F. Subprojects

1. Without limitation upon the provisions of parts B and C of this Section, the Borrower, through MARENASS, shall monitor the activities of the Subprojects in accordance with the provisions of this paragraph and those of the Operational Manual that include, \textit{inter alia}:

(a) the administrative rules and procedures for the planning, preparing, proposing, selecting, contracting, financing, implementing, supervising, monitoring and evaluating Subprojects;

(b) an indigenous peoples’ framework setting forth the strategies, procedures, activities, and monitoring indicators addressing, in a culturally appropriate manner, indigenous peoples’ concerns in the implementation of the Project, as well as for planning, preparation and proposals of Subprojects;

(c) the environmental criteria for screening and selecting Subprojects, and mandatory safeguards and mitigation actions for any such Subprojects, which could possibly have a negative environmental impact; and

(d) the procedures related to the manufacturing, packaging, labeling, handling, storing, and disposal of any pesticides used in the carrying out of Subprojects.

2. The Borrower, through MARENASS, shall furnish to the Bank, along with each Loan withdrawal application, a list of the respective Subprojects for which it is seeking reimbursement.
3. The Subprojects shall be carried out pursuant to an agreement (the Subproject Agreement), to be concluded between the Borrower, through MARENASS and the Subproject beneficiary(ies) under terms and conditions described in the Operational Manual, which shall include, *inter alia*, the following:

(a) a copy of the approved activity with its budget, pre-investment study, disbursement and performance indicators;

(b) the obligation of the Subproject beneficiary(ies) to: (i) carry out the activities with due diligence and efficiency and in accordance with sound administrative, financial, agricultural, social, natural and environmental standards and in accordance with the provisions of the Operational Manual; (ii) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Operational Manual, the operations, resources and expenditures in respect of the Subproject; (iii) maintain adequate reporting in accordance with the standards specified in the Operational Manual; and (iv) make a contribution in kind or/and in cash as defined in the Operation Manual;

(c) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Project shall be procured in accordance with the procedures set forth in this Agreement and in the Procurement Plan; and (ii) such goods, works and services shall be used exclusively in the carrying out of the activities financed by the Subproject;

(d) the right of the MARENASS to inspect, by itself or jointly with the Bank, if the Bank shall so request, the goods, works, sites, plants and construction included in the activities financed by the Subprojects, the operations thereof and any relevant records and documents;

(e) the right of MARENASS to obtain all information as the Bank shall reasonably request regarding the administration, operations and financial conditions of the activities financed by the Subprojects; and

(f) (i) the right of MARENASS to suspend and terminate the right of Subproject beneficiary(ies) to use the proceeds of the Loan; and (ii) the obligation of the beneficiary(ies) to refund any used portion of the Loan to MARENASS, upon failure by the beneficiary(ies) to perform any of its obligations under the respective Subproject Agreement.
Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Borrower, through MARENASS, shall 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 Performance Indicators as agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than December 31, 2012.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through MARENASS, shall maintain or cause to be maintained 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 prepare and furnish to the Bank not later than one month after the end of each calendar quarter (in the form set forth in the Operational Manual), interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower, through MARENASS, shall 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. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.
Section III. Procurement

A. General

1. **Goods, Works and Non-Consultant Services.** All goods, works and non-consultant 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consultant services shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding, subject to the additional provisions set forth in Part E of this Section III</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
<tr>
<td>(d) Community Participation in Procurement</td>
</tr>
</tbody>
</table>
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 table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Consultants’ Qualifications</td>
</tr>
<tr>
<td>(c) Commercial Practices</td>
</tr>
<tr>
<td>(d) Single Source Selection</td>
</tr>
<tr>
<td>(e) Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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.

E. Special Provisions

1. 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-consultants’ services with National Competitive Bidding procedures under this Section:

   (a) No reference value shall be required for publication in the bidding documents.

   (b) 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.

   (c) Foreign bidders shall not be required to authenticate (legalizar) their bidding documents or any documentation related to such bidding documents with either Peruvian Consulates, the Ministry of Foreign Affairs, or any Peruvian authorities as a prerequisite of bidding.
(d) The Borrower, through MARENASS, shall use standard bidding documents and standard evaluation formats; all satisfactory to the Bank.

2. 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 employment of consultants:

(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 either Peruvian Consulates, the Ministry of Foreign Affairs, or any Peruvian authorities as a condition of participation in said selection process.

(c) The Borrower, through MARENASS, 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.

(e) No 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 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.

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 may 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: (a) finance the Front-end Fee in accordance with Section 2.07 (b) of the General Conditions; and (b) finance Eligible Expenditures as set forth in paragraph 2 below.
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, exclusive of Taxes.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Part 1 of the Project (Rural Business’ Subprojects)</td>
<td>10,200,000</td>
<td>Up to 100% of the amounts disbursed for the cost of goods, works, services, Training and Operating Costs</td>
</tr>
<tr>
<td>(2) Part 2 of the Project (Community Development Subprojects)</td>
<td>9,380,000</td>
<td>Up to 100% of the amounts disbursed for the cost of goods, works, services, Training and Operating Costs</td>
</tr>
<tr>
<td>(3) Part 3(a) of the Project (goods, consultant and non-consultant services, Training and Operating Costs)</td>
<td>0</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>(4) Part 3(b) and 3(c) of the Project (goods, consultant and non-consultant services, Training and Operating Costs)</td>
<td>420,000</td>
<td>Up to 100%</td>
</tr>
<tr>
<td>(5) Premia for Interest Rate Caps and Collars</td>
<td>Amounts payable pursuant to Section 2.08 (c) of this Agreement</td>
<td></td>
</tr>
<tr>
<td>(6) Front-end Fee</td>
<td>0</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
<tr>
<td>(7) Unallocated</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>20,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
3. For the purposes of this Schedule, the terms:

(a) “Training” means reasonable expenditures incurred by the Borrower for the carrying out of training activities under the Project, including reasonable costs of travel, subsistence, and per diem for trainers and trainees, registration fees, training materials; and

(b) “Operating Costs” means the reasonable incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, insurance, communication expenses, equipment, vehicles, computer operation and maintenance, supervision costs, travel and per diem, as well as reasonable costs of Project promotional campaigning at the regional and local levels.

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, if the Borrower selects not to capitalize the Front-end Fee; or

(b) under Category (3) until the Bank has received satisfactory evidence that the SDU has been duly established within the PCM in accordance with the Borrower’s laws and regulations, and that in the opinion of the Bank, the SDU is fully operational so as to carry out Part 3 (a) of the Project in accordance with the terms of this Agreement.

2. The Closing Date is December 31, 2012.
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.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On April 15, 2018</td>
<td>50%</td>
</tr>
<tr>
<td>On October 15, 2018</td>
<td>50%</td>
</tr>
</tbody>
</table>

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: (a) 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 (b) 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

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

2. “Community Development Subproject” means a subproject to diversify, expand, and/or improve the assets and production of rural families in selected areas of the Borrower’s territory that have limited access to markets, aimed primarily at improving natural resource management, reducing vulnerability to risks, and increasing agricultural and livestock production for self-consumption by families and organized rural communities through: (a) improvements to increase yields (including the use of improved cultivation techniques), soil conservation and water retention methods, optimized input use, and plant protection; (b) to the extent possible, generate excess production for sale in local markets; or (c) another development activity that meets the objective of the Project as set forth in Schedule 1 to this Agreement and the eligibility criteria set forth in the Operational Manual, and that has been duly approved by the Borrower and the Bank.


4. “Environmental Assessment” or “EA” means the Borrower’s environmental assessment dated February 9, 2006, detailing, inter alia, the environmental and social mitigation measures to be applied during Project implementation, and containing the environmental assessment framework and the pest management plan for the Project, as such may be amended from time to time with the prior approval of the Bank.

5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 17, 2007).

6. “MARENASS” means Unidad de Coordinación del Proyecto Manejo de Recursos Naturales en la Sierra Sur of MINAG, the Borrower’s Natural Resources Management Unit for the Southern Sierra, as established by the Borrower’s Presidential Emergency Decree No. 024-97 of March 19, 1997, as amended.

8. “MARENASS’ Steering Committee” means the Junta Directiva de MARENASS, MARENASS’ steering committee as referred to in Section I.A.2 (a) of Schedule 2 to this Agreement.


10. “MINAG” means Ministerio de Agricultura, the Borrower’s Ministry of Agriculture.

11. “Operational Manual” means the manual for the operation of the Project referred to in Section I.C of Schedule 2 to this Agreement.

12. “PCM” means Presidencia del Consejo de Ministros, the Borrower’s Presidency of the Council of Ministers.


15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 23, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

16. “Rural Business Subproject” means a subproject for the Borrower’s Sierra region that promotes productive alliances between regional and local stakeholders, in order to strengthen market access and competitiveness, increase productivity and production quality, create more predictable demand, provide key technological inputs, introduce new production practices, help disseminate timely market and pricing information, and/or identify and exploit emerging niche markets for: (a) agriculture (which may include activities related to, inter alia, crops, livestock, and agro-forestry); (b) nonagricultural activities (which may include aquaculture, tourism, services, handicrafts, small-scale industry, and agribusiness initiatives); or (c) for another agricultural or non-agricultural development activity that meets the objective of the Project as set forth in Schedule 1 to this Agreement and the eligibility criteria set forth in the Operational Manual, and that has been duly approved by the Borrower and the Bank.

17. “SDU” means Unidad de Coordinación Multisectorial para el Desarrollo Rural en la Sierra, the Borrower’s Multisectoral Coordination Unit for Rural Development in the Sierra, as organized within PCM.
18. “Sierra” means the Borrower’s regions located in the Peruvian Andes, rising above 2,000 meters.

19. “Subprojects” means, collectively, Rural Business Subprojects and/or Community Development Subprojects.

20. “Subproject Agreement” means an agreement for the financing of a Subproject as referred to in paragraph F.3 of Section I of Schedule 2 to this Agreement.