Her Excellency
Mercedes Aráoz Fernández
Minister of Economy and Finance
Ministry of Economy and Finance
Jr. Junín 319
Lima, Peru

Re: Republic of Peru: Grant for On-site Expert Support to Improve the Implementation of Sub-national Investments in the Regions of Apurímac, Ayacucho, and Huancavelica
SFLAC Grant No.TF096018

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Peru (“Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided by the Government of Spain under the Spanish Fund for Latin America and the Caribbean (SFLAC), proposes to extend to the Recipient, a grant in an amount not to exceed four hundred thousand United States Dollars (U.S.$400,000) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.
Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ C. Felipe Jaramillo
Director
Bolivia, Chile, Ecuador, Peru and Venezuela
Latin America and the Caribbean Region

AGREED

REPUBLIC OF PERU

By: /s/ Ismael Benavides Ferreyros
Title: Ministro de Economia y Finanzas
Date: September 24, 2010

Enclosures:


Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement, and the following additional term has the following meaning:

(a) “Fondo de Promoción a la Inversión Pública Regional y Local” or “FONIPREL” means the Recipient’s funds created by Law No. 29125 published in the Diario Oficial “El Peruano” on October 31, 2007, which establishes the implementation and functions of said fund.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to strengthen the institutional capacity of the Recipient’s sub-national governments of the Apurímac, Ayacucho, and Huancavelica regions by improving their capacity to gather systematic information on the status of public investments projects and identify and troubleshoot problems that delay the implementation of said projects. The Project consists of the following parts:

(a) Project Investment Management Expert Support

(i) Provision of technical assistance to assist with the resolution of engineering, procurement and administrative issues which are slowing down project execution in each of the three regions; and

(ii) Provision of technical assistance to gather and systematize data collection efforts which monitor the status of public investment projects throughout different stages of the implementation phase, assist the creation of a committee that will monitor progress of investment projects, and identify and troubleshoot problems in a timely manner.

(b) Project Management and Dissemination

(i) Carrying out of Project management;

(ii) Preparation of a report to be disseminated nationally on the lessons learned under this Project; and

(iii) Carrying out of Project financing audit reports as required.
2.02. **Project Execution Generally.** The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the *Unidad de Coordinación de Prestamos Sectoriales* (UCPS) under the Recipient’s Ministry of Economy and Finance (“Project Implementing Entity” or “PIE”) in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”) with the modifications set forth in the Appendix to this Agreement; and (c) this Article II.

2.03. **Donor Visibility and Visit.** (a) The Recipient, through UCPS, shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Government of Spain’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient, through UCPS, shall, upon the World Bank’s request, take all measures required on its part to enable the representatives of the Government of Spain to visit any part of the Recipient’s territory for purposes related to the Project.

2.04. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient, through UCPS, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) Increase the number of projects to 80% in the budget of the sub-national governments in the regions of Apurímac, Ayacucho and Huancavelica for which information on the public investment projects cycle status will be available to the local authority by June 30, 2011.

(ii) Have at least 10 new public investment projects with technical specifications or under implementation by the sub-national governments of Apurímac, Ayacucho, and Huancavelica by December 31, 2010.

(c) The Recipient, through UCPS, shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than five months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient shall employ consultants in accordance with the provisions of Section 2.06 of this Agreement.

2.05. **Financial Management.** (a) The Recipient, through UCPS, shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient, through UCPS, shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report
not later than one month after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient, through UCPS, shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each period shall be furnished to the World Bank not later than five months after the end of such period.

2.06. **Procurement**

(a) **General.** All goods, and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Procurement Guidelines”), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 and May 2010 (“Consultant Guidelines”) in the case of consultants’ services.

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods (Including Non-Consultant Services)**

Goods (including Non-Consultant services) shall be procured under contracts awarded on the basis of Shopping.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection; (F) Selection of Individual Consultants; and (G) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the first contract to be awarded following a particular procurement method shall be subject to Prior Review by the World Bank. All other contracts shall be subject to Post Review by the World Bank.
Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient, through UCPS, may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in US Dollars)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consulting services (including audit)</td>
<td>384,400</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Training</td>
<td>15,600</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>400,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of this Section the term “Training” means the non-consultant expenditures incurred by the PIE in connection with the carrying out of training activities under the Project, including: (a) travel expenses and *per diem* of trainees including staff of the Recipient; (b) rental of facilities and equipment; and (c) training materials and supplies.

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three years from the date of countersignature of this Agreement.

Article IV
Termination

4.01. Termination for Lack of Implementation or Disbursement. This Agreement and all obligations of the parties under it shall terminate if: (a) the Grant has not been countersigned before July 12, 2010; (b) it has not been implemented or has not disbursed any funds after 6 months of its countersignature; and/or (c) the SFLAC Secretariat has determined that there is lack of progress in the implementation of this Project, unless the World Bank, after consideration of
the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article V
Recipient’s Representative; Addresses

5.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its Minister of Economy and Finance.

5.02. Recipient’s Address. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Economy and Finance  
Jr Junin 319, Piso 5  
Lima, Peru  
Tel.: +511 311 5958, +511 311 5959  
Facsimile: +511 311 9900

5.03. World Bank’s Address. The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable: INTBAFRAD  
Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391
APPENDIX

Modifications to the Anti-Corruption Guidelines

Section I. The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

   “(b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

   “(a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”