Loan Agreement

(First Programmatic Fiscal Management and Competitiveness Development Policy Loan)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated April 16, 2007
LOAN AGREEMENT

Agreement dated April 16, 2007, entered into between REPUBLIC OF PERU (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower’s maintenance of an appropriate macro-economic policy framework. The Borrower and the Bank therefore 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 the Loan 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 two hundred million Dollars (US$200,000,000), 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”).

2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.
2.05. 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, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; 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.

2.06. The Payment Dates are April 15 and October 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.

2.08. (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.

2.09. Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

2.10. The Borrower’s Minister of Economy and Finance or the Borrower’s Director of Public Indebtedness, and any person whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article II of the General Conditions.

ARTICLE III—PROGRAM

3.01. The Borrower declares its commitment to the Program and its implementation. To this end:
(a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall exchange views with the Bank on any proposed action to be taken after the disbursement of the Loan which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV—REMEDIES OF THE BANK

4.01. The Additional Events of Suspension consist of the following:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

(b) The Borrower’s macroeconomic policy framework has become inconsistent with the objectives of the Program.

(c) An action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action listed in Section I of Schedule 1 to this Agreement) in a manner that would, in the opinion of the Bank, adversely affect the achievement of the objectives of the Program.

ARTICLE V—EFFECTIVENESS

5.01. 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 eighteen (18) months after the Bank’s approval of the Loan which expire on June 19, 2008.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is the Borrower’s Minister of Finance.
6.02. The Borrower’s Address is:

Ministry of Economy and Finance
Jr. Junín 319
Lima, Perú
Facsimile: (511) 426-8500

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 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)
AGREED at the District of Columbia, United States of America, 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/ Marcelo Giugale
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Borrower under the Program include the following:


B. The Borrower has presented to its Congress a draft of the Sanctions Law which has the objective of, *inter alia*, creating the Fiscal Policy Committee, increasing sustainability and transparency of fiscal policy, as well as strengthening the monitoring and enforcement of fiscal rules, as evidenced by: (1) Presidential Letter (Oficio) No. 054-2005 dated April 17, 2006, addressed to the Borrower’s Congress; and (2) Legislative Opinion (Dictamen) No. 13/2006-PE prepared by the Borrower’s Comisión de Presupuesto y Cuenta General de la República on the draft Sanctions Law, dated September 21, 2006.

C. The Borrower has taken significant steps to improve its tax system by *inter alia*, having: (i) prepared a cost-benefit analysis of the elimination of existing sectoral and regional tax exemptions, dated October 9, 2006; (ii) enabled internet-registration for the single taxpayer identification number (RUC) as evidenced by the Borrower’s Resolution (Resolución de Superintendencia) No. 123-2006/SUNAT, dated July 21, 2006; and (iii) made the RUC database available to the public through the internet, as evidenced by the Borrower’s Resolution (Resolución de Superintendencia) No. 075-2006/SUNAT, dated May 19, 2006.

D. The Borrower has published and implemented a public debt management strategy for the period 2006-2008, based on cost and risks analysis, in order to promote, *inter alia*, the sustainable development of its domestic debt market, as well as reducing its exposure to currency and external shocks, as evidenced by: (1) the Borrower’s Programa Anual de Endeudamiento Público y de Administración de Deuda 2006-2008 dated August, 2005, and accessible to the public through MEF’s official web page; (2) the Borrower’s Letter (Oficio) No. 673-2005-EF/10, dated November 8, 2005; and (3) the Borrower’s Ley No. 28563 dated July 18, 2005.

E. The Borrower has: (i) adopted an action plan to strengthen budget-reporting and planning; (ii) initiated the process to migrate towards a treasury single account (TSA) and a Budget Classification System; and (iii) aligned its budget classification system to international standards as well as to perform automatic
accounting by SIAF, as evidenced by: (1) the Borrower’s Vice Minister of Finance Letter (Memorando) No. 032-2006-EF/11.01 dated October 18, 2006; (2) the Borrower’s action plan for the updating of budgetary classifications dated October, 2006; (3) the Borrower’s Law of the National System of the Treasury (Ley General del Sistema Nacional de Tesorería), published on March 22, 2006; and (4) the Borrower’s Law of the National Accounting System (Ley General del Sistema Nacional de Contabilidad) published on April 12, 2006.

F. The Borrower has initiated the implementation of a results-based budget management system including a relevant set of performance indicators, as well as a monitoring and evaluation system for public expenditures, in order to improve control and impact of public spending on a national, sub-national and sectoral levels, as evidenced by: (1) MEF’s Directive (Directiva) No. No.030-2006-EF/76.01 dated June 7, 2006, and approved by MEF’s Resolution (Resolución Directoral) No. 013-2006-EF/76.01) published on June 11, 2006; and (2) MEF’s Letter (Oficio) No. 587-2006-EF/UCPS, dated November 10, 2006.

G. The Borrower has carried out significant efforts to expand and deepen international trade by, inter alia, signing and ratifying in its Congress a free trade agreement (the FTA) with the United States of America, as evidenced by: (1) the Borrower’s Legislative Resolution (Resolución Legislativa) No. 28766 published on June 29, 2006; and (2) the Borrower’s Supreme Decree (Decreto Supremo) No. 030-2006-RE, published on June 30, 2006.

H. The Borrower has reduced from 7% to 4% tariffs imposed on capital goods in 196 tariff lines (partidas arancelarias) and published national guidelines to tariff policy as evidenced by: (1) the Borrower’s Ministerial Resolution No. 005-2006-EF/15, dated January 12, 2006; and (2) the Borrower’s Supreme Decree (Decreto Supremo) No. 150-2005-EF, published on November 12, 2005.

I. The Borrower has created a “Ventanilla Unica”, one-stop shop, with the objective of establishing uniform procedures for authorization and control of imports and exports subject to non-tariff measures, as evidenced by the Borrower’s Supreme Decree (Decreto Supremo) No. 165-2006-EF dated November 2, 2006, and published on November 3, 2006.

J. The Borrower has launched a strategy of electronic government, has approved the Borrower’s Digital Agenda, and put in place an electronic portal for the provision of public services, enabling further transparency to public sector processes, as evidenced by: (1) the Borrower’s Ministerial Resolution No. 274-2006-PCM dated July 25, 2006; and (2) Letter (Oficio) No.606-2006-PCM-SGP of the Borrower’s Prime Minister’s Council, dated October 31, 2006; (3) the Borrower’s Supreme Decree (Decreto Supremo) No. 032-2006-PCM, dated June 20, 2006; and (4) the Borrower’s Supreme Decree (Decreto Supremo) No. 031-2006-PCM, dated June 20, 2006.
Section II. **Availability of Loan Proceeds**

A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section.

B. **Allocation of Loan Amounts.** The Loan shall (except for amounts required to pay the Front-end Fee) be withdrawn in a Single Tranche. The allocation of the amounts of the Loan to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Loan Allocated (expressed in US Dollars)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Tranche</td>
<td>200,000,000</td>
</tr>
<tr>
<td>Front-end Fee</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>200,000,000</strong></td>
</tr>
</tbody>
</table>

C. **Payment of Front-end Fee.** No withdrawal shall be made from the Loan Account until the Bank has received payment in full of the Front-end Fee.

D. **Deposits of Loan Amounts.** Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and

2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Bank.

E. **Excluded Expenditures.** The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is December 31, 2007.
SCHEDULE 2

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 15 October 2013</td>
<td>5.5%</td>
</tr>
<tr>
<td>On 15 April 2018</td>
<td>94.5%</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: (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. “Budget Classification System” means the Borrower's Sistema de Clasificación Presupuestario, a system designed to strengthen transparency, accountability and efficiency in the public sector financial management and accounting system.

2. “Digital Agenda” means Plan de Desarrollo de la Sociedad de la Información en el Perú, the Borrower’s digital development plan as approved on June 20, 2006.

3. “Excluded Expenditure” means any expenditure:
   
   (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
   
   (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>
(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) under a contract with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds during the procurement or execution of such contract, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

4. “Fiscal Policy Committee” means Comité de Coordinación de Política Fiscal, the Borrower’s Coordination Committee on Fiscal Policy as referred to in the Sanctions Law (as hereinafter defined).

5. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans” dated July 1, 2005 with the modifications set forth in Section II of this Appendix.

6. “Law on Electronic Signatures” means the Borrower’s Ley de Firmas y Certificados Digitales No. 27269, the Borrower’s legislation regulating the use of electronically registered signatures.


8. “MEF” means Ministerio de Economía y Finanzas, the Borrower’s Ministry of Economy and Finance.

9. “Program” means the program of actions, objectives and policies designed to achieve fiscal management and competitiveness reforms in the Borrower’s economy, so as to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated November 9, 2006, from the Borrower to the Bank declaring the Borrower’s commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
10. “Sanctions Law” means *Ley que constituye el Comité de Coordinación de Política Fiscal y establece sanciones por el incumplimiento de las reglas fiscales contenidas en la Ley de Responsabilidad y Transparencia Fiscal*, the Borrower’s Law that creates the Coordination Committee on Fiscal Policy and sets forth sanctions for non-compliance with fiscal regulations as contained in the Law of Transparency and Fiscal Responsibility.

11. “SIAF” means *Sistema Integrado de Administración Financiera del Sector Público*, the Borrower’s integrated financial administration system for the public sector, established and operating pursuant to Vice Ministerial Resolution No. 005-97-EF/11 dated January 11, 1997.

12. “Single Tranche” means the amount of the Loan allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Bank for Reconstruction and Development General Conditions for Loans” dated July 1, 2005 are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article V are renumbered accordingly.

4. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.

5. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 5.06. Plans; Documents; Records

   … (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”
6. Section 5.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 5.07. Program Monitoring and Evaluation

… (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Loan Agreement in support of which the Loan is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.