Loan Agreement

(Rural Road Rehabilitation and Maintenance Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated December 7, 1995
LOAN AGREEMENT

AGREEMENT, dated December 1995, between REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

WHEREAS (B) the Borrower intends to contract from the Interamerican Development Bank (IDB) a loan (the IDB Loan) in an amount equivalent to ninety million dollars ($90,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the IDB Loan Agreement) to be entered into between the Borrower and IDB; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Single Currency Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Collaboration Agreement" means the agreement, satisfactory to the Borrower and the Bank, to be entered into between the Borrower, through MTC (as hereinafter defined), a Provincial Municipality (as hereinafter defined) and all District Municipalities (as hereinafter defined) within the jurisdiction of the respective Provincial Municipality (as hereinafter defined) providing for, inter alia, procedures for coordination in Project implementation, and the obligations of the respective Municipalities (as
hereinafter defined) related to their institutional development and financing of maintenance of the rural roads rehabilitated under the Project; and “Collaboration Agreements” means all of such agreements;

(b) “Departamento” means a political subdivision of Peru as provided in its Constitution;

(c) “DGC” means MTC’s Dirección General de Caminos, General Directorate of Roads;

(d) "District Municipality" municipalidad distrital, means a political subdivision of Peru as provided in its Constitution;

(e) "Eligible Subproject" means an investment project in the Project Area (as hereinafter defined) to either: (i) rehabilitate a Rural Road/s (as hereinafter defined), or section/s thereof, to ensure adequate transitability and access; (ii) rehabilitate a Primary Road/s (as hereinafter defined) and/or Secondary Road/s (as hereinafter defined), or section/s thereof, which is/are directly connected and provide access to the Rural Roads (as hereinafter defined) rehabilitated under the Project; (iii) improve the condition of streets in a village or small town through their upgrading and/or paving; or (iv) improve the condition of tracks and footpaths in a village or small town with rural roads being rehabilitated under the Project; and which investment project meets the criteria and standards set forth in the Project Operational Manual (as hereinafter defined) and is included in an annual investment program approved by the Bank pursuant to Section 3.03 (b) of this Agreement;

(f) "FONCODES" means the Borrower’s Social Development and Compensation Fund, Fondo Nacional de Compensación y Desarrollo Social;

(g) "INADE" means the Borrower’s National Institute of Development, Instituto Nacional de Desarrollo;

(h) "Institutional Action Plan" means the plan of actions, satisfactory to the Bank, jointly prepared between the Project Unit and the respective Provincial Municipality and adopted by the latter for purposes of strengthening the capacity of such Municipality to manage the rural road network and improve condition of transport services in its jurisdiction;

(i) "Local Currency Account" means the account in local currency opened by the Borrower, through MTC, in a commercial bank for purposes of making expenditures under the project;
(j) "MTC" means the Borrower’s Ministry of Transport, Communications, Housing and Construction, Ministerio de Transportes, Comunicaciones, Vivienda y Construcción;

(k) "Municipalities" means the Provincial Municipalities and the District Municipalities;

(l) "Performance Indicators and Targets" means the indicators and targets, satisfactory to the Borrower and the Bank, for purposes of measuring progress in the implementation of the Project and achievement of its objectives as such indicators and targets are included in the letter from the Borrower to the Bank of even date herewith;

(m) "Primary Roads" means those roads, other than Secondary and Rural Roads, listed in the Borrower’s Decreto Supremo No. 09-95-MTC dated June 19, 1995 and published in the Borrower’s Official Gazette dated June 21, 1995 and which decree may be amended from time to time;

(n) "Project Area" means the area comprised by the Departamentos of Ancash, Apurímac, Ayacucho, Cajamarca, Cusco, Huancavelica, Huanuco, Junín, Pasco, Puno, Madre de Dios and San Martín and any other Departamentos which may be agreed between the Borrower and the Bank in addition to, or in substitution of, the above ones provided that, among other things, the Bank is satisfied, in respect to any new Departamento, with the organizational structure of its proposed implementing unit, the indicators to assess performance of such unit and the adequacy and relevance of the Project objectives and Project implementation arrangements in said Departamento;

(o) "Project Implementation Unit" means the unit established within MTC pursuant to the Borrower’s Resolución No.315-95-MTC/15.03 dated July 19, 1995; such unit to be responsible for the overall management of the Project including those Project implementation and supervision functions described in the Project Operational Manual;

(p) "Project Operational Manual" means the operational manual, satisfactory to the Bank, setting forth the criteria, rules and procedures for the implementation of the Project, including the Project institutional set-up, organizational structure and functions of the Project Implementation Unit, procedures for generating, selecting and approving subprojects, the eligibility criteria for subprojects, environmental rules, procurement procedures, flow of Project funds and Project monitoring and evaluation; such manual to be approved by MTC pursuant to Section 6.01 of this Agreement, and as amended from time to time by agreement between the Borrower and the Bank;

(q) "Provincial Municipality" means municipalidad provincial a political subdivision of Peru as provided in its Constitution;
(r) "Rural Roads" means those roads classified as Rutas Vecinales by the Borrower as set forth in the Borrower's Decreto Supremo No. 09-95-MTC dated June 19, 1995 and published in the Borrower's Official Gazette dated June 21, 1995 and as such decree may be amended from time to time;

(s) "Secondary Roads" means those roads classified as Rutas Departamentales by the Borrower as set forth in the Borrower's Decreto Supremo No. 09-95-MTC dated June 19, 1995 and published in the Borrower's Official Gazette dated June 21, 1995 and as such decree may be amended from time to time;

(t) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(u) "UED" means each of the units to be established by MTC for purposes of administering the implementation of the Project at the regional level in accordance with the Project Operational Manual.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to ninety million dollars ($90,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the
rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period, as reasonably determined by the Bank and expressed as a percentage per annum).

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for
determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to amounts of the Loan not yet withdrawn upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MTC, with due diligence and efficiency and in conformity with appropriate engineering, technical, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall, through MTC:

(i) carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement, the Project Operational Manual and each annual investment program approved by the Bank pursuant to Section 3.03(b) of this Agreement;

(ii) enter into Collaboration Agreements with each of the Municipalities in the Project Area willing to participate in the Project; and

(iii) duly perform all of its obligations and exercise all of its rights under each Collaboration Agreement in such manner as to protect the interests of the Borrower and the Bank and to
achieve the purposes of the Loan and not amend, abrogate, waive or fail to enforce such agreements or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. Without limitation to the provisions of Section 9.07 (a) (iii) and (c) of the General Conditions, the Borrower, through the Project Implementation Unit, shall furnish to the Bank:

(a) not later than January 31, April 30, July 31, and October 31 of each year of Project execution, quarterly progress reports on the Project, of such scope and detail as the Bank may reasonably request, including, inter alia: (i) information on the progress achieved during the then previous quarter in the implementation and in the achievement of the objectives of the Project based, inter alia, on the Performance Indicators and Targets; (ii) an assessment of the problems and issues derived from the implementation of the Project; (iii) updated implementation and disbursements schedules for the then following semester; and (iv) status of compliance by the Borrower with its obligations under this Agreement and, if the case may be, a plan of actions detailing the adjustments and remedial action to be taken for their compliance with such obligations;

(b) for its review and approval, not later than July 31 of each year of Project execution, a proposed annual investment program providing for the activities, implementation schedule and proposed budget in respect of each Part of the Project during the upcoming year.

Section 3.04. Without limitation to the provisions of Section 9.01 (a) (i) of the General Conditions, the Borrower, through MTC, shall:

(a) during the second quarter of each year, starting in 1996, hold annual reviews with the Bank, such reviews to be based on the reports referred to in Section 3.03 (a) of this Agreement and to focus, inter alia, on: (i) progress in the execution and in the achievement of the objectives of the Project based on, among other factors, the Performance Indicators and Targets; (ii) performance of the Project Implementation Unit and each of the UEDs; (iii) effectiveness of Project implementation as measured by the involvement of local governments and communities, response of local contractors and coordination with other development programs in the Project Area; (iv) experience with the procedures set forth in the Project Operational Manual; (v) progress in restructuring and strengthening the administration and financing of road maintenance; (vi) the proposed annual investment program for the Project in the upcoming year; and (vii) any changes
in the Project design and implementation that may be necessary;

(b) in respect of the annual review to be held in 1998, focus on the following items in addition to those mentioned in paragraph (a) above: (i) progress in decentralization within the road sector; (ii) strategy for the financing of rural roads maintenance; (iii) progress in inter-agency coordination in rural road construction and maintenance; (iv) participation of Municipalities in the execution of the Project; (v) proposals to restructure the Borrower’s overall program of rural road rehabilitation and maintenance and arrangements for its financing after the Project; and

(c) if, as a result of any of the above reviews, the Bank shall have reasonably determined that the progress in the execution of the Project or in the attainment of the objectives of the Project is not satisfactory, promptly take or cause to be taken, without limitation or restriction to any of the Bank’s rights under this Agreement, all such action, satisfactory to the Bank, as shall be necessary for the efficient execution of the Project or for the attainment of its objectives.

Section 3.05. The Borrower shall, for the purposes of an efficient and adequate execution and coordination of the Project:

(a) operate and maintain the Project Implementation Unit with an organizational structure, functions, autonomy and staffing satisfactory to the Bank; and

(b) establish and maintain each UED in accordance with the provisions and timetable set forth in the Project Operational Manual.

Section 3.06. The Borrower shall maintain the Local Currency Account and shall deposit at the beginning of each month into that account such amounts as shall be necessary to cover anticipated payments during that month for expenditures on account of goods, works or services procured or to be procured under the Project.

Section 3.07. For the purposes of Section 9.08 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.
Section 3.08. The Borrower shall, through the Project Implementation Unit: (a) retain independent auditors acceptable to the Bank to conduct, under terms of reference satisfactory to the Bank, technical audits for each semester, starting with the semester January-June 1996, on the performance by the Borrower in the implementation of the Project including achievement of physical targets, quality and cost of the works, compliance with eligibility criteria, procurement, disbursement and environmental procedures set forth in the Project Operational Manual and achievement of performance targets for each UED; and (b) furnish to the Bank, as soon as available, but in any case not later than ninety days after each such semester the report of such auditors.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting
such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified:

(a) The IDB Loan Agreement shall have failed to become effective by not later than six months after the Effective Date, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of the IDB Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the IDB Loan Agreement providing therefor; or

(B) the IDB Loan shall have become due and payable prior to the agreed maturity thereof.
(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that:

(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and

(B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (b) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that MTC shall have approved and put into effect the Project Operational Manual.

Section 6.02. The date March 7, 1996 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:
For the Borrower:

Ministry of Economy and Finance
Jr. Junin 319
Lima, Perú

For the Bank:

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

Cable address: INTBAFRAD
Telex:

INTBAFRAD 248423 (RCA)
Washington, D.C. 82987 (FTCC)
64145 (WUI) or
197688 (TRT)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Lima, Peru, as of the day and year first above written.

REPUBLIC OF PERU

By

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Acting Regional Vice President
Latin America and the Caribbean
## SCHEDULE 1

**Withdrawal of the Proceeds of the Loan**

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

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works under Parts A, B, D and E of the Project</td>
<td>60,000,000</td>
<td>45% of expenditures under contracts awarded to a contractor from a Bank and IDB member country and 90% of expenditures under contracts awarded to a contractor from a Bank member country but not IDB member country</td>
</tr>
<tr>
<td>(2) Works under force account procedures under Part C.4 of Schedule 4 to this Agreement</td>
<td>2,000,000</td>
<td>45%</td>
</tr>
<tr>
<td>(3) Works under Part C of the Project</td>
<td>4,000,000</td>
<td>30% of expenditures incurred prior to January 1, 1999 and 20% thereafter</td>
</tr>
<tr>
<td>Category</td>
<td>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</td>
<td>% of Expenditures to be Financed</td>
</tr>
<tr>
<td>----------</td>
<td>---------------------------------------------------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td>(4) Consultants services related to: (i) feasibility and engineering design studies, and supervision of works under Parts A, B, D and E of the Project; and (ii) technical audits referred to in Section 3.08 of this Agreement</td>
<td>9,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>(5) Consultants services and training under Part F of the Project</td>
<td>4,000,000</td>
<td>50%</td>
</tr>
<tr>
<td>(6) Unallocated</td>
<td>11,000,000</td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL** 20,000,000

2. For purposes of this Schedule the term "training" means expenditures related to: (i) training materials and rent of training facilities in connection with the activities under Part F.4 of the Project; and (ii) registration fees, travel, per diem, training materials and rent of training facilities in connection with the activities under Part F.5 of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall
be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed $9,000,000, may be made in respect of Categories (1), (2), (3) and (4) on account of payments made for expenditures before that date but after May 24, 1995; and (b) payments made for expenditures under Parts A, B, C, D, E or F.1 (c) of the Project, excluding expenditures prior to the date of this Agreement and subject to the provisions set forth in paragraph (a) above, in respect of Project activities in the jurisdiction, or for the benefit, of a Municipality unless the respective Collaboration Agreement shall have been executed.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts not exceeding $1,000,000 equivalent excluding the first contract awarded by each UED; (b) services provided by consulting firms under contracts not exceeding $100,000; (c) services provided by individuals under contracts not exceeding $50,000; and (d) training, under such terms and conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The overall objective of the Project is to assist the Borrower in providing an integrated and reliable rural road system. Specific objectives are to: (a) reduce transport costs and raise the reliability of vehicular access to expand markets for agricultural and non-farm products; (b) integrate areas of low access to regional economic centers; (c) improve transport conditions in rural villages; (d) generate employment to mitigate rural poverty; and (e) strengthen institutional capacity and develop small and medium enterprises to manage and execute, on a sustainable basis, the maintenance and upgrading of rural roads.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Rehabilitation of Rural Roads

Carrying out Eligible Subprojects for the rehabilitation of about 7,500 kilometers of Rural Roads in the Project Area.

Part B: Rehabilitation of Connecting Primary and Secondary Roads

Carrying out Eligible Subprojects for the rehabilitation, of about 2,200 kilometers of Primary and Secondary Roads, in the Project Area, directly connected to the Rural Roads rehabilitated under the Project.

Part C: Routine Maintenance of Rural Roads

Routine maintenance of about 11,500 kilometers of roads in the Project Area which are either: (a) rehabilitated under the Project; or (b) built or rehabilitated by other public agencies or entities.

Part D: Improvement of Village Streets

Carrying out Eligible Subprojects for the improvement, through upgrading or paving, of about 140 kilometers of village streets, including sidewalks, drainage systems and safety measures, in the Project Area.
Part E: Improvement of Non-Motorized Rural Transport

1. (a) Execution of a pilot program in selected sites, agreed between the Borrower and the Bank, in the Project Area, to improve, through Eligible Subprojects, the network of tracks and footpaths through the removing of unsafe spots and other impediments to the adequate use of non-motorized means of transport; and (b) execution of the above activities in the whole Project Area.

2. A technical assistance program to support the above activities.

Part F: Institutional Development

1. A technical assistance program to: (a) strengthen MTC's capacity to formulate and analyze rural roads policy, to program investments in coordination with other ministries and to monitor compliance with investment programs and performance of the rural transport system; (b) assist the Project Implementation Unit in the implementation and evaluation of the Project; and (c) strengthen the capacity of Municipalities to plan and implement rural roads programs.

2. (a) A study on local road administration practices to: (i) evaluate procurement legislation and practices at the local level for purposes of identifying impediments to an adequate and efficient management of the rural road network and making recommendations to address such impediments; and (ii) evaluate constraints to the development of the local construction industry including affordability and access to bank credit, policy and employment conditions and alternatives for equipment rental; and (b) a study on rural road financing to evaluate and propose financing mechanisms for maintenance of the rural road network.

3. A technical assistance program to develop micro-enterprises and other community organizations to execute rural road maintenance including: (a) the design of the legal, administrative and financial framework under which the micro-enterprises and other community organizations will be constituted; (b) the design of the technical and administrative procedures for the planning, implementation and supervision of the maintenance carried out by micro-enterprises and other community organizations; (c) the establishment of micro-enterprises and other community organizations for the routine maintenance under Part C of the Project; (d) the design of a monitoring and control system of the micro-enterprises and other community organizations involved in rural roads maintenance; and (e) a dissemination campaign among local governments on the benefits of rural roads maintenance by micro-enterprises and other community organizations.

4. A technical assistance and training program aimed at increasing the
technical and managerial capacity of small and medium construction and consulting firms in rural road construction and maintenance.

5. A training program in Peru and abroad in rural road management for staff of MTC, the Project Implementation Unit and Municipalities participating in the Project.

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The Project is expected to be completed by June 30, 1999.
## SCHEDULE 3

### Amortization Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Payment of Principal (Expressed in dollars)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15 beginning April 15, 2001 through October 15, 2012</td>
<td>3,750,000</td>
</tr>
</tbody>
</table>

* The figures in this column represent the amount in dollars to be repaid, except as provided in Section 4.04 (d) of the General Conditions.
SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, works shall be procured under contracts awarded in accordance with the provisions of Section II of the guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost $3,000,000 equivalent or less per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines. The advertising notices and standard bidding documents shall specify that, in the event that the lowest evaluated bidder is from a country not eligible under the IDB procurement norms, the Bank will disburse for expenditures under the respective contract at a percentage to also cover the IDB portion as set forth in Schedule 1 to this Agreement.

2. Procurement of Small Works

Works estimated to cost $250,000 equivalent or less per contract and $153,000,000 equivalent or less in the aggregate, may be procured under fixed price contracts awarded on the basis of quotations obtained from, at least, three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully
complete the contract.

3. Direct Contracting

Works estimated to cost $50,000 equivalent or less per contract and $40,000,000 equivalent or less in the aggregate, may be procured under contracts awarded directly either to a community association or micro-enterprise in accordance with criteria and procedures satisfactory to the Bank on the basis of standard regionalized unit prices agreed from time to time between the Bank and the Borrower.

4. Force Account

Subject to the approval by the Bank, works: (a) estimated to cost less than $50,000 equivalent and $4,500,000 equivalent or less in the aggregate; (b) of an equipment-intensive nature; and (c) to be carried out in areas where no contractors with the required equipment are available, may be carried out through force account procedures satisfactory to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for works estimated to cost the equivalent of $1,000,000 or more and the first contract for works awarded by each UED under national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.
Part E: Standard Bidding Documents

The Borrower shall utilize standard bidding documents, acceptable to the Bank, in the procurement of works under national competitive bidding procedures.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than $100,000 equivalent each; or (b) contracts for the employment of individuals estimated to cost less than $50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to $100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to $50,000 equivalent or above.
The Borrower shall:

(a) (i) not later than March 31, 1996, complete the inventory of all Primary Roads under the jurisdiction of the Borrower; (ii) not later than November 30, 1996, complete the inventory of all Secondary Roads under the jurisdiction of the Borrower; and (iii) based on such inventories, update, as the case may be, the functional classification of all public roads in Peru;

(b) (i) through DGC, prepare in coordination with the Project Implementation Unit, and carry out the DGC annual road rehabilitation and maintenance programs in the Project Area in a manner to ensure complementarity between such programs and the Project; (ii) not later than July 31 of each year, furnish to the Bank: (1) for its review, the DGC proposed program of road rehabilitation and maintenance in the Project Area for the then following year; and (2) information of such scope and detail as the Bank may determine, on road rehabilitation and maintenance programs in the Project Area being implemented, or to be implemented, by other entities; (iii) make any adjustments, as reasonably determined by the Bank, in the DGC programs of rural roads rehabilitation and maintenance in the Project Area and the annual investment programs of the Project to ensure, at all times, that such programs and Project are carried out in a complementary manner;

(c) not later than March 31, 1996, retain consultants in accordance with the provisions set forth or referred to in Section II of Schedule 4 to this Agreement, to assist in the implementation of Part F.1 of the Project;

(d) not later than December 31, 1996, complete the training of key staff, as determined by the Borrower and the Bank, of the planning office of MTC under Part F.1 (a) of the Project;

(e) not later than December 31, 1996, retain consultants in accordance with the provisions set forth or referred to in Section II of Schedule 4 to this Agreement, to assist in the carrying out of the studies under Part F.2 of the Project;

(f) (i) submit to the Bank, not later than March 31, 1998, an action plan, satisfactory to the Bank, for the implementation of suitable mechanisms for financing rural roads maintenance and for streamlining local road management practices; and (ii) implement the above action plan in a manner and under a timetable acceptable to the Bank;
(g) not later than March 31, 1996, retain consultants in accordance with the provisions set forth or referred to in Section II of Schedule 4 to this Agreement, to assist in the implementation of Part F.3 of the Project;

(h) contract out to microenterprises or community associations, as designed under Part F.3 of the Project, the labor-based routine maintenance works under Part C of the Project;

(i) submit to the Bank the respective Institutional Action Plan within six months of the execution of the respective Collaboration Agreement; and monitor compliance with each of such Institutional Action Plans;

(j) approve, within six months of the execution of the respective Collaboration Agreement, the inventory of all Rural Roads in the jurisdiction of the Municipality in question and put into effect in respect of such Municipality the functional classification of roads adopted pursuant to paragraph (a) above;

(k) approve, not later than September 30, 1996, an environmental manual, acceptable to the Bank, for design and execution of maintenance and rehabilitation of rural roads and require all contractors carrying out works under the Project to use such an environmental manual;

(l) through the Project Implementation Unit, take all necessary action on its part to coordinate implementation of investment programs with FONCODES, INADE and any other governmental agency or entity involved in rural development activities in the Project Area, in accordance with the Project Operational Manual;

(m) in the event that a Municipality fails to perform its obligations under the respective Collaboration Agreement, including the respective Institutional Action Plan, to the satisfaction of the Bank,:

(i) not include activities in the jurisdiction, or for the benefit, of such Municipality in any proposed annual investment program until such Municipality has taken corrective action to the satisfaction of the Bank; and

(ii) eliminate from the then approved annual investment program, ceasing therefore to be eligible for financing under the Project, activities, including Eligible Subprojects, in the jurisdiction, or for the benefit, of such Municipality provided, however, that there has not been any contracting of works or services in respect of the activity in question.

The above shall be without limitation to any Bank's rights under this Agreement.
SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3), (4) and (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of works and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to $6,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $3,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of $21,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required
pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unw withdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unw withdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as
the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT

CERTIFICATE

I hereby certify that the foregoing is a true copy of
the original in the archives of the International Bank
for Reconstruction and Development.

S. Y. Chi
FOR SECRETARY