CONFORMED COPY

LOAN NUMBER 7257-PE

Loan Agreement

(Vilcanota Valley Rehabilitation and Management Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated February 9, 2005
AGREEMENT, dated February 9, 2005, 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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) by an agreement dated September 13, 2002, between the Borrower and the Bank (the National Rural Water Supply and Sanitation Project PRONASAR Loan Agreement), the Bank has agreed to make a loan to the Borrower in a principal amount of fifty million Dollars ($50,000,000) to assist in financing the PRONASAR Project on the terms and conditions set forth in the National Rural Water Supply and Sanitation Project Loan Agreement;

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 Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999, as amended through May 1, 2004 (the General Conditions) constitute and 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) “Beneficiary” means a community association or non-governmental organization which has met the eligibility criteria specified in the Small Grants Operational Manual, and, as a result, has been granted or is to be granted a Small Grant for activities under Part C.3 of the Project;

(b) “CENFOTUR” means ‘Centro de Formación en Turismo’, the MINCETUR’s center for training in tourism, established and operating pursuant to the Borrower’s Decree-Law No 22155 dated May 4, 1978;

(c) “Committee of Notables” means a committee comprising at the most nine members from the communities of the Vilcanota Valley as well as other recognized experts from academia and civil society;

(d) “Disaster Mitigation Plan” means the plan prepared by the United Nations Development Program in 2000, as the same may be updated from time to time, and detailing mitigation and emergency measures for the town of Machu Picchu to be taken in case of a natural disaster in said town;

(e) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(f) “INC” means ‘Instituto Nacional de Cultura’, the Borrower’s national institute for culture, established and operating pursuant to the Borrower’s Decree-Law No. 18799, dated March 10, 1971;

(g) “INRENA” means ‘Instituto Nacional de Recursos Naturales’, the Borrower’s national institute for natural resources, established and operating pursuant to the Borrower’s Decree-Law No. 25904, dated November 29, 1992;

(h) “Institutional Cooperation Agreements” means any or all of the agreements executed between the Borrower, through MINCETUR on one hand and each of the Municipalities, INRENA, INC, CENFOTUR and VMS, for purposes of governing such parties’ cooperation with respect to the Project;

(i) “MINCETUR” means the Borrower’s Ministry in charge of foreign trade and tourism;

(j) “Municipalities” means each and all of the municipalities within the Project area, namely Cuzco, Pisac, Calca, Urubamba, Ollantaytambo, Chinchero and Machu Picchu;
(k) “Municipal Territorial Plans” means the plans to be adopted the following municipalities: Pisac, Calca, Urubamba, Ollantaytambo and Machu Picchu, as referred to in Section 3.04 (c) of this Agreement and establishing land use in their respective municipal territories;

(l) “PIT” means the Project implementation team within the Borrower’s National Directorate of Tourism Development (DNDT) of MINCETUR in charge of the day-to-day management and execution of the Project;

(m) “PMSHMP” means ‘Plan Maestro para el Sanctuario Histórico de Machu Picchu’, the master plan for the Sanctuary adopted by INRENA through Resolution No. 085-98-INRENA, dated October 21, 1998, as the same may be amended from time to time;

(n) “Process Framework” means the plan for the pilot capacity building and investment program under the Project for the approximately fifty families living in the Sanctuary, dated April 15, 2004, as the same may be amended from time to time with the Bank’s prior approval, and such term includes any schedules to the Process Framework;

(o) “Procurement Plan” means the Borrower’s procurement plan dated July 16, 2004 covering the entire period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement;

(p) “Project Operational Manual” means the manual referred to in paragraph 1 of Schedule 5 to this Agreement, outlining policies and implementation procedures including institutional strengthening and social mitigation plans as well as monitoring guidelines for the Project and other related documents. Said manual may be amended for time to time with the Bank’s prior approval, and such term includes any schedules to the Project Operation Manual, including the Small Grants Operational Manual, the environmental guidelines for all infrastructure investments under the Project, as well as the guidelines on cultural property and on resettlement;

(q) “PRONASAR” means the National Rural Water Supply and Sanitation Project (Loan number 7142-PE) dated September 13, 2002 between the Bank and the Borrower;

(r) “Resettlement Plan” means the Borrower’s plan detailing resettlement procedures for the Project, dated April 15, 2004, as the same may be amended from time to time with the Bank’s prior approval and such term includes any schedules to the Resettlement Plan;
“Sanctuary” means the historic sanctuary of Machu Picchu including the Machu Picchu citadel and its biological reserve;

“Small Grant” means a small grant made or proposed to be made to a Beneficiary for activities under Part C.3 of the Project in accordance with paragraph 5 of Schedule 5 to this Agreement and with the Small Grants Operational Manual;

“Small Grant Agreement” means an agreement among MINCETUR, one of the following municipalities: Pisac, Calca, Urubamba, Ollantaytambo, Chinchero and Machu Picchu, and a Beneficiary, setting forth the terms and conditions under which a Small Grant shall be made available to said Beneficiary for the purpose of financing activities under Part C.3 of the Project in accordance with paragraph 5 of Schedule 5 to this Agreement and with the Small Grants Operational Manual;

“Small Grants Operational Manual” means the manual referred to in paragraph 1 of Schedule 5 to this Agreement, to be annexed to the Project Operational Manual and outlining policies, procurement, disbursement and implementation procedures as well as monitoring guidelines for Part C.3 of the Project;

“Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

“Strategic Environmental Assessment” means the Borrower’s long-term dynamic plan detailing environmental and cultural property management and disaster mitigation guidelines for the future of the Vilcanota Valley, as the same may be amended from time to time with the Bank’s prior approval, and such term includes any schedules to the Strategic Environmental Assessment, such as a regional solid waste management study and any related environmental assessment;

“Vilcanota Valley” means the Project area defined as the hydrological catchment basin of the Vilcanota river which includes the Sanctuary and the sacred valley of the Incas;

“Vilcanota Valley Territorial Plan” means the plan referred to in Section 3.04 (d) of this Agreement, to be adopted by the municipalities within the Vilcanota Valley and establishing land use in the Vilcanota Valley; and

“VMS” means the Borrower’s Vice Ministry in charge of sanitation within the Borrower’s Ministry in charge of housing, construction and sanitation.
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 four million nine hundred and eighty thousand dollars ($4,980,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 works, goods and services (including those financed through Small Grants) required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

(b) The Borrower, through MINCETUR, may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and 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 June 30, 2009 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.
Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on January 15 and July 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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 said 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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04(c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.
Section 2.10. The Borrower’s Minister at the time responsible for Finance or the Borrower’s Director General at the time responsible for Public Credit, and any person or persons 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 V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through MINCETUR with due diligence and efficiency and in conformity with appropriate administrative, engineering, social, financial, cultural, public utility 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, through MINCETUR, and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project, including those financed through Small Grants, and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through MINCETUR, shall update the Procurement Plan in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through MINCETUR, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) 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 3.04. The Borrower, through MINCETUR, shall furnish or cause to be furnished to the Bank:

(a) no later than three months after the Effective Date, the contract appointing the independent auditors referred to in Section 4.01 (b) (i) of this Agreement, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III of Schedule 4 to this Agreement;

(b) no later than eighteen months after the Effective Date, evidence that the necessary land acquisition has been completed in order to carry out the Resettlement Plan and the revised PMSHMP;

(c) no later than twenty four months after the Effective Date, the Strategic Environmental Assessment and a separate municipal territorial plan for each of the following municipalities: Pisac, Calca, Urubamba, Ollantaytambo and Machu Picchu; and

(d) no later than thirty months after the Effective Date, the territorial plan for the Vilcanota Valley; all documents in form and substance satisfactory to the Bank.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MINCETUR, shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through MINCETUR, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), commencing with the fiscal year in which the first withdrawal under the Loan was made, audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (or such other period agreed to by the Bank), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may 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, through MINCETUR, shall:

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

(ii) enable the Bank’s representatives to examine such records; and

(iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower’s progress reporting obligations set out in Paragraph 2 of Schedule 5 to this Agreement, the Borrower, through MINCETUR, shall prepare, or cause to be prepared and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and
explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Other Covenants

Section 5.01. The Borrower, through MINCETUR, shall include in the Institutional Cooperation Agreements, the Municipalities’ following obligations:

(a) take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for insurance against risks associated with selected Project equipment and construction sites, in such amounts as shall be consistent with appropriate practice;

(b) carry on their operations and conduct their affairs in accordance with sound administrative, financial, engineering, social, cultural, public utility and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times operate and maintain all Project equipment and construction sites, and from time to time, promptly as needed, make all necessary repairs and renewals thereof and undertake other measures, all in accordance with sound engineering, financial and administrative, social, cultural and environmental practices.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events is specified, namely, that a construction take place with the
aim of establishing a road from the hydroelectric power plant within the boundaries of the Sanctuary to the community of Piscaycucho.

Section 6.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions, namely, that:

(a) the Borrower, through MINCETUR, has adopted a financial management system, including the capacity to produce FMRs, satisfactory to the Bank;

(b) the Borrower, through MINCETUR, has adopted the Project Operational Manual (including the Small Grants Operational Manual), the Resettlement Plan and the Process Framework;

(c) the Borrower, through MINCETUR, has executed the Institutional Cooperation Agreements, all in form and substance satisfactory to the Bank; and

(d) a general coordinator for the Project, a technical coordinator/economist, a procurement specialist and a financial management specialist have been appointed and are working in the PIT, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III of Schedule 4 to this Agreement.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, that the Institutional Cooperation Agreements have been duly authorized or ratified by and are legally binding upon MINCETUR on one hand and each of the Municipalities, INRENA, INC, CENFOTUR and VMS, on the other hand.

Section 7.03. The date May 9, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. Except as provided in Section 2.10 of this Agreement, the Borrower’s Minister at the time responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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. Junín 319
Lima, Peru

Facsimile:
(511) 426-8500

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: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Lima, Peru, as of the day and year first above written.

REPUBLIC OF PERU

By /s/ Pedro Pablo Kuczynski
    Authorized Representative

INTERNATIONAL BANK FOR
    RECONSTRUCTION AND DEVELOPMENT

By /s/ Pamela Cox
    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 amount of the Loan to each Category and the percentage of expenditures for items to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Dollars)</th>
<th>% of Expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td>2,800,000</td>
<td>62%</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>280,000</td>
<td>63%</td>
</tr>
<tr>
<td>(3) Consultants’ Services and Audits</td>
<td>1,005,100</td>
<td>50%</td>
</tr>
<tr>
<td>(4) Training</td>
<td>160,000</td>
<td>35%</td>
</tr>
<tr>
<td>(5) Works, Goods and Services financed by Small Grants under Part C.3 of the Project</td>
<td>250,000</td>
<td>85%</td>
</tr>
<tr>
<td>(6) Operating Costs</td>
<td>460,000</td>
<td>85%</td>
</tr>
<tr>
<td>(7) Front-end fee</td>
<td>24,900</td>
<td>Amount due under Section 2.04 of this Agreement</td>
</tr>
<tr>
<td>(8) Premium for Interest Rate Caps and Collars</td>
<td>0</td>
<td>Amount due under Section 2.09 (c) of this Agreement</td>
</tr>
</tbody>
</table>

| TOTAL                                                 | 4,980,000                                          |                                  |

2. For the purposes of this Schedule:
(a) the term “Operating Costs” means the reasonable incremental expenses incurred on account of Project implementation, management and monitoring, including insurance, vehicle and equipment operation, bank charges on the Special Account, transport, travel, per diem, and supervision costs and local contractual staff salaries but excluding salaries of officials of the Borrower’s civil service at the national and at the local levels; and

(b) the term “Training” means: (i) training materials and rental of training facilities; and (ii) reasonable fees, travel, and per diem of trainers, training institutions and trainees.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding $470,000, may be made in respect of Category (3) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures twelve months before that date but in any event no earlier than May 1, 2004.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $250,000 equivalent per contract; (b) works costing less than $500,000 equivalent per contract; (c) services of individual consultants costing less than $50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than $100,000 equivalent per contract; and (e) operating costs, training and Small Grants; all under such terms and conditions as the Bank shall specify by notice to the Borrower.
SCHEDULE 2

Description of the Project

The objective of the Project is to alleviate poverty through the sustainable preservation and development of the human, social, natural, cultural and historical assets of the Vilcanota Valley.

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: Tourism Capacity Building and Infrastructure Development


2. Provision of: (i) basic sanitation and solid waste services along the Inca trail within the Sanctuary; (ii) pedestrian access to historical monuments in the Vilcanota Valley (with the exception of the Sanctuary); and (iii) signage systems for historical monuments in the Vilcanota Valley.

3. Carrying out of studies for the restoration and preservation of historic architectural, agricultural and hydrological infrastructure.

4. Carrying out of information, education and communication campaigns on the history and culture of the Andean people through, inter alia, the production of related materials, targeting visitors and local residents, including children.

Part B: Urban Services and Infrastructure Rehabilitation

1. (a) Carrying out of a regional solid waste management study to identify appropriate eco-industrial solid waste management strategies and investments in the Vilcanota Valley; and (b) construction and operation of a solid waste landfill and composting facilities utilizing eco-industrial methodologies, as recommended by said study.

2. Urbanization of a site and construction of housing for resettled vulnerable households.
3. Provision of financing to allow communities to carry out their PRONASAR environmental obligations in relation to studies for: (i) ecologically sustainable water and sanitation rehabilitation; and (ii) the carrying out of a rural sanitation program through the construction of latrines.

4. Rehabilitation of existing urban storm drainage systems in selected municipalities in the Vilcanota Valley.

**Part C: Local Economic Development**

1. Carrying out of capacity building programs for local tourism service providers.

2. Design and construction of community telecenters in selected municipalities in the Vilcanota Valley.

3. Design and execution of participatory local economic development strategies through an innovation development marketplace instrument including Small Grants for Beneficiaries for the following municipalities: Pisac, Calca, Urubamba, Ollantaytambo, Chinchero and Machu Picchu.

**Part D: Strategic Planning and Municipal Capacity Building**

1. Carrying out of the Strategic Environmental Assessment, the Municipal Territorial Plans and the Vilcanota Valley Territorial Plan.

2. Carrying out of municipal capacity building programs, *inter alia*, in tourism management, municipal finance, management of urban services and disaster prevention.

3. Development of a municipal and regional address-based geographic information system to support land management, project planning and revenue mobilization.

***

The Project is expected to be completed by December 31, 2008.
SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall 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) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment 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>Payment Date</th>
<th>Installment Share (Expressed as a %)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each July 15 and January 15</td>
<td></td>
</tr>
<tr>
<td>Beginning on January 15, 2013 through January 15, 2018</td>
<td>8.33%</td>
</tr>
<tr>
<td>On July 15, 2018</td>
<td>8.37%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan shall not 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 as follows:

   (a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said 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 principal amount of the Loan withdrawn and outstanding from time to time shall be 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.
SCHEDULE 4

Procurement

Section I. Procurement of Goods and Works

A. All goods, works and services (other than consultants’ services) shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement method or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower by domestic suppliers.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than $350,000 equivalent per contract and works estimated to cost less than $3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost $50,000 or less equivalent per contract and works estimated to cost $250,000 or less equivalent per contract, may be procured under contracts awarded on the basis of Shopping.
3. **Direct Contracting.** Goods and works which the Bank agrees meet the requirements for Direct Contracting may, with the Bank’s prior agreement, be procured in accordance with the provisions of said procurement method.

4. **Community Participation.** Goods, works and services estimated to cost less than $50,000 equivalent per contract and required for Part C.3 of the Project may be procured on the basis of community participation in accordance with the procedures described in paragraph 3.17 of the Procurement Guidelines and in the Small Grants Operational Manual.

### Section III. Particular Methods of Procurement of Consultants’ Services

**A. Quality- and Cost-based Selection.** Except as otherwise provided in Part B of this Section, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $350,000 equivalent per contract may comprise entirely national consultants.

**B. Other Procedures**

1. **Selection Based on Consultants’ Qualifications.** Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. **Least Cost Selection.** Services for assignments estimated to cost less than $100,000 equivalent per contract which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least Cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. **Single Source Selection.** Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank’s prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. **Commercial Practices.** Services estimated to cost less than $50,000 equivalent per contract and required under Part C.3 of the Project may be procured in accordance with commercial practices acceptable to the Bank and with the Small Grants Operational Manual.
5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review. Except as the Bank shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants’ Services).

   (a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Procurement Guidelines shall apply to each contract for goods and services (other than consultants’ services) estimated to cost the equivalent of $250,000 or more, the first two contracts awarded under national competitive bidding procedures and each contract for works estimated to cost $500,000 equivalent or more.

   (b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower, through MINCETUR, shall provide to the Bank a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Bank’s approval shall have been given; and (iii) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants’ Services Provided by Firms.

   (a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more.

   (b) The following prior review procedures shall apply to each contract for consultants’ services provided by a firm to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank’s approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.
3. **Consultants’ Services Provided by Individuals.**

   (a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants’ services provided by an individual estimated to cost the equivalent of $50,000 or more.

   (b) The following prior review procedures shall apply to each contract for consultants’ services provided by an individual to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank’s approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. **Post Review.**

1. With respect to each contract for goods, works or services (other than consultants’ services) not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants’ services not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.

**Section V. Special Provisions**

A. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Guidelines, the following provisions shall govern all procurement of goods, works and non-consultant services under Section II of this Schedule:

1. **No reference value shall be required for publication in the bidding documents.**

2. **Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.**

3. **The Borrower, through MINCETUR, shall utilize standard bidding documents satisfactory to the Bank.**
4. Foreign bidders shall not be required to legalize their bids or any documentation related to such bids with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participate in the bidding process.

B. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Consultant Guidelines, the following provisions shall govern all employment of consultants referred to in Section III of this Schedule:

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.

2. No reference value shall be required for publication in the proposal documents.

3. No minimum number of responsive proposals shall be required prior to awarding a contract for consulting services.

4. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participating in the selection process.
SCHEDULE 5

Implementation Program

1. General

The Borrower, through MINCETUR, shall:

(a) carry out the Project in accordance with a Project operational manual (including, as an annex thereto, an operational manual for Small Grants), the Strategic Environmental Assessment, the Resettlement Plan, the Process Framework, and the Disaster Mitigation Plan and, except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank’s prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail;

(b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 7 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(c) maintain until the completion of the execution of the Project, the PIT with competent staff in adequate numbers, as referred to in section 7.01 (d) of this Agreement;

(d) participate until the completion of the execution of the Project in quarterly consultation meetings with the Municipalities, INRENA, INC, CENFOTUR and VMS and submit minutes of said consultation meetings to the Bank;

(e) participate until the completion of the execution of the Project in annual consultation meetings with the Committee of Notables and other community-based non-governmental organizations, and submit minutes of said consultation meetings to the Bank; and

(f) enter into and thereafter implement until the completion of the execution of the Project the Institutional Cooperation Agreements, each satisfactory to the Bank, and except as the Bank shall otherwise agree, shall not amend or waive any substantive provision of said Agreements without the Bank’s prior written approval. These Agreements will not be amended or waived if, in the opinion of the Bank, such amendments or waivers may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof. In case of any conflict between the
terms of said Agreements and those of this Agreement, the terms of this Agreement shall prevail.

2. **Semi-Annual Progress Reports and Mid-Term Review**

The Borrower, through MINCETUR, shall:

(a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31 and July 31 of each year, starting on the first such date after the Effective Date, a semi-annual progress report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(b) review with the Bank, by February 28 and August 31 of each year, starting on the month following the presentation of the first semi-annual progress report, or such later date as the Bank shall request, the report referred to in subparagraph (a) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank’s views on the matter;

(c) by January 31, 2007, or such other date as the Bank shall agree upon, carry out jointly with the Bank a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and

(d) following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.

3. **Annual Procurement Audits**

The Borrower, through MINCETUR, shall:

(a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles, by independent auditors acceptable to the Bank;

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

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

4. Procurement Plan

The Borrower, through MINCETUR, shall:

(a) furnish to the Bank, on or about January 31 and July 31 of each year, starting on January 31, 2005, the updated Procurement Plan, satisfactory to the Bank, detailing all procurement activities under the Project for the following twelve months;

(b) review with the Bank, by February 28 and August 31 of each year, starting on February 28, 2005, or such later date as the Bank shall request, the plan referred to in paragraph (a) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the plan based on its recommendations and the Bank’s views on the matter; and

(c) in case of any conflict between the terms of the Procurement Plan and those of this Agreement, the terms of this Agreement shall prevail.

5. Small Grants under Part C.3 of the Project

(a) Without limitation upon the provisions of paragraph 1 of this Schedule, the Borrower, through MINCETUR, shall monitor the activities under Part C.3 of the Project and supervise the Small Grants in accordance with the provisions of (i) this paragraph; (ii) the Institutional Cooperation Agreements with the Municipalities; and (iii) the Small Grants Operational Manual.

(b) The Borrower, through MINCETUR, shall, prior to the submission of the Loan withdrawal application for the respective activity to be financed through a Small Grant, furnish to the Bank a report confirming that the respective Small Grant Agreement has been executed, indicating the name of the Beneficiary and detailing how the selection was conducted.

(c) The Small Grants shall be requested by a Beneficiary up to an aggregate amount of $40,000 equivalent and solely for the purposes of the activities under Part C.3
of the Project (activities for the development of the human, social, natural, cultural and historical assets of the Vilcanota Valley).

(d) The Small Grants shall be carried out pursuant to a Small Grant Agreement, to be concluded among MINCETUR, the Municipality and the Beneficiary under terms and conditions described in more details in the Small Grants Operational Manual and which shall include the following:

(i) a copy of the approved activity with its budget, disbursement and its performance indicators;

(ii) provisions requiring the financing to be made on a grant basis;

(iii) the obligation of the Beneficiary to: (A) carry out the activities with due diligence and efficiency and in accordance with sound administrative, financial, social, natural, cultural and environmental standards and in accordance with the provisions of the Small Grant Operational Manual; (B) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Small Grant Operational Manual, the operations, the resources and expenditures in respect of the Small Grant; and (C) maintain adequate reporting in accordance with the standards specified in the Small Grant Operational Manual;

(iv) the requirement that: (A) the goods, works and services to be financed from the proceeds of the Small Grants shall be procured in accordance with the procedures set forth in Schedule 4 to this Agreement; and (B) such goods, works and services shall be used exclusively in the carrying out of the activities financed by the Small Grant;

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

(vi) the right of MINCETUR to obtain all information as the Borrower or the Bank shall reasonably request regarding the administration, operations and financial conditions of the activities financed by the Small Grant; and
(vii) (A) the right of MINCETUR to suspend and terminate the right of the Beneficiary to use the proceeds of the Small Grant; and (B) the obligation of the Beneficiary to refund any used portion of the Small Grant to MINCETUR; upon failure by the Beneficiary to perform any of its obligations under its Small Grant Agreement.

(e) MINCETUR and the Municipalities shall exercise their rights under the Small Grant Agreements in such manner as to protect their interests and the interests of the Bank in order to accomplish the purposes of Part C.3 of the Project, and except as the Bank shall otherwise agree, MINCETUR and the Municipalities shall not assign or abrogate the Small Grant Agreements or any provision thereof.
SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) 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 goods 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 $400,000 to be withdrawn from the Loan Account and deposited into 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 $150,000 until the aggregate amount of withdrawals from the Loan Account for the categories specified in paragraph 1 (a) of this Schedule 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 $1,000,000.

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, through MINCETUR, shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts 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, through MINCETUR, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower, through MINCETUR, shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower, through MINCETUR, 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, through MINCETUR, 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, through MINCETUR, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower, through MINCETUR, 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, through MINCETUR, out of the Special Account, the Borrower, through MINCETUR, 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, through MINCETUR, 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;

(b) if the Borrower, through MINCETUR, 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 unwithdrawn amount of the Loan allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation.
Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn 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.
SCHEDULE 7

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Borrower and the Bank:

<table>
<thead>
<tr>
<th>Performance Indicators</th>
<th>Target Dates</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mid Term</td>
</tr>
<tr>
<td>1. Number of telecenters, visitor interpretation centers and visitor facilities on the Inca Trail</td>
<td>1</td>
</tr>
<tr>
<td>2. Number of tourism employees trained in eco-tourism principles</td>
<td>100</td>
</tr>
<tr>
<td>3. Number of tourism facilities incorporating green technologies</td>
<td>1</td>
</tr>
<tr>
<td>4. Number of municipal and regional staff and community members trained in eco-tourism, eco-industrial networking, and sustainability principles</td>
<td>50</td>
</tr>
<tr>
<td>5. Number of person-years in employment generated by the project activities</td>
<td>100</td>
</tr>
<tr>
<td>6. Number of Small Grant Agreements</td>
<td>3</td>
</tr>
<tr>
<td>7. Number of municipalities with an address-based geographic information system</td>
<td>1</td>
</tr>
<tr>
<td>8. Number of municipalities with a revenue increase</td>
<td>1</td>
</tr>
</tbody>
</table>