March 31, 2003

His Excellency
Allan Wagner
Minister of Foreign Affairs
Lima, Peru

Re: Grant for the Creation of a National Strategic Planning Function (IDF Grant TF No. TF 051856.)

Dear Sir:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement to make a grant in an amount not exceeding two hundred eighty eight thousand United States Dollars (US$288,000) (the Grant) to the Republic of Peru (the Recipient).

The Grant is made in response to the Recipient's request of financial assistance for the project described in paragraph 1 of the Annex to this Letter Agreement (the Project) and on the terms and conditions set forth in the said Annex. The Recipient represents, by confirming its agreement below, that it is authorized to contract and withdraw the Grant for the said Project and on the said terms and conditions.

Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating, and returning to us the enclosed copy of this Letter Agreement. Upon receipt by the Bank of the copy of this Letter Agreement countersigned by you, this Letter Agreement will become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By

Marcelo Giugale
Director
Bolivia, Ecuador, Peru and Venezuela

AGREED:
REPUBLIC OF PERU

By

Name Allan Wagner Tizón
Title Ministro de Relaciones Exteriores

Date: 12 de Mayo de 2003

cc: Mr. Javier Silva Ruete, Minister of Economy and Finance
Mr. Luis Solari, President of the Council of Ministers
ANNEX

Objectives, Terms, and Conditions of the Grant

1. Description of the Project

1.1 The objective of the Project is to build capacity for the strategic planning function of the Recipient by: (a) preparing, through consultation, long-term sustainable structures and policies for strategic planning; (b) supporting the initial establishment of policy and investment priorities in line with the Recipient’s long-term vision defined by the July 2002 Acuerdo Nacional; (c) developing a methodology to reorient public policy, actions and expenditures in accordance with such priorities; and (d) designing and establishing a results-oriented monitoring and evaluation system that can be used as an input to reassess priorities over time.

1.2. The Grants consists of the following Parts, each of which includes the following activities (the Activities):

Part A: Dialogue and Consultation Exchanges

Preparation and implementation of an agenda for dialogue and consultation exchanges among local stakeholders with the participation of local and foreign experts, through: (a) organization of nationwide workshops, roundtables, and fora in order to obtain initial inputs from national, regional and local authorities, as well as other members of Acuerdo Nacional, including training of such authorities on the structure and procedures a new strategic planning function and development of summaries to distill lessons learned; (b) analysis of experiences in other developing countries; and (c) organization of a feedback exchange mechanism to validate the proposed policy guidelines (these Activities are estimated to cost US$39,744 equivalent).

Part B: Development of Methodologies for Strategic Planning Processes

Design of the methodologies of the strategic planning system (including internal processes and products), through: (a) design of a results-oriented monitoring and evaluation system for strategic planning processes; (b) design of a sustainable structure for the implementation of the Recipient’s strategic planning; and (c) carrying out of an internal inventory of the strategic planning capacities within the Recipient’s Executive Branch, comprising human and financial resources allocated to planning purposes (these Activities are estimated to cost US$66,250 equivalent).

Part C: Preparation of Draft Legislation for the National Strategic Planning System and Function
Preparation of draft legislation for the strategic national planning system and function, including roundtables of high-level officials of the Recipient’ Executive Branch and Congress (these Activities are estimated to cost US$18,750 equivalent).

Part D: Implementation of a Core Pilot Program

Implementation of a core program on a pilot basis as an initial step to make the planning function operational, focusing on the highest priority activities that require a strategic planning approach in order to encourage a political consensus about the strategic planning function, including the preparation of an operational manual comprising terms of reference of key positions, internal budgetary and financial management systems, procurement and disbursement guidelines, as well as operational and administrative arrangements (these Activities are estimated to cost US$163,256 equivalent).

2. Implementation Generally

2.1. The Recipient shall: (a) carry out the Project, through the Office of the Presidency of the Council of Ministers (PCM), with due diligence and efficiency; (b) promptly provide the funds, facilities, services and other resources required for that purpose; (c) furnish all information covering the Project and the use of the proceeds of the Grant as the Bank shall reasonably request; (d) from time to time exchange views with the Bank’s representatives on the progress and results of the Project; and (e) take all necessary measures required to enable the Bank to visit the territory of the Recipient for purposes related to the Grant. Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Project a report, in form and substance satisfactory to the Bank, on the results and impact of the Project.

2.2. Upon receipt of notification from the Bank allowing the establishment of the Special Account, the Recipient may, for the purposes of each Part of the Project, open and maintain in Dollars a separate special 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 Attachment II to this Agreement.

3. Procurement

3.1. Except as the Bank shall otherwise agree, procurement of the consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Attachment I to this Annex.

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for 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 Grant.

4.2. The expenditures for the following Categories of items may be financed out of the proceeds of the Grant and shall be used exclusively in the carrying out of the Project:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (in US$)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services</td>
<td>245,266</td>
<td>85%</td>
</tr>
<tr>
<td>(2) Training, workshops</td>
<td>42,734</td>
<td>100%</td>
</tr>
<tr>
<td>and printing</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**TOTAL** 288,000

For the purposes of this paragraph, the terms “training” means the cost of: (i) per diem and travel expenses of trainees; (ii) rental of training facilities and equipment; (iii) training materials; and (iv) training fees.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) No withdrawals shall be made from the Grant Account: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by the Bank, except that withdrawals, in an aggregate amount not exceeding US$28,800, may be made in account of payments made for expenditures before that date but after December 31, 2002; (ii) on account of payments for any taxes levied by or in the territory of the Recipient; (iii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from such territories; or (iv) for the purpose of any payment to persons or entities, or for any import of goods if such payment or import, to the Bank’s knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) No withdrawals shall be made from the Grant Account after a date which is three (3) years after the date of countersignature of this Letter Agreement or such later date that the Bank shall establish by notice to the Recipient (the Closing Date); and

(c) If, in the Bank’s opinion, an amount of the Grant allocated to any of the items in the table in paragraph 4.2 above will be insufficient to finance the expenditures for such item, the Bank may, by written notice to the Recipient, reallocate to such item an amount of the Grant then allocated to another item which, in the Bank’s opinion, will not be necessary to meet other expenditures.

4.4. When the Recipient shall desire to withdraw any amount from the Grant Account, it shall deliver to the Bank a written application for withdrawal of such amount in the form specified by the Bank. Withdrawal applications shall be: (a) signed on behalf of the
Recipient by the President of the Council of Ministers or such other person as he or she shall have authorized in writing; and (b) accompanied by such evidence in support of the application as the Bank shall reasonably request. Authenticated specimen signatures of the person authorized to sign withdrawal applications shall be provided with the first application bearing his or her signature. Each withdrawal application for an amount of the Grant and its supporting evidence must be sufficient in form and substance to satisfy the Bank that the Recipient is entitled to withdraw such amount from the Grant Account and that such amount is to be used in the carrying out of the Project. The Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

4.5. The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: training and travel, under such terms and conditions as the Bank shall specify by notice to the Recipient.

4.6. Withdrawals of the proceeds of the Grant shall be made in the currency of the Grant. The Bank, at the Recipient’s request and acting as an agent of the Recipient, shall purchase with the currency of the Grant withdrawn from the Grant Account such currencies as shall be required to pay for expenditures to be financed out of the proceeds of the Grant. Whenever it shall be necessary, for the purposes of this Letter Agreement, to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Bank.

5. Records and Accounts

5.1. The Recipient shall:

(a) maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the resources and expenditures related to the Activities, including records and accounts for all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure;

(b) retain, until at least one year after the date on which the last withdrawal from the Grant Account was made, all records and accounts referred to in subparagraph (a) above, including records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure;

(c) enable the Bank’s representatives to examine such records and accounts and furnish to the Bank such other information concerning said records and accounts as the Bank shall from time to time reasonably request;

(d) have said records and accounts referred to in subparagraph (a) of this paragraph, audited for each project year, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Bank; for the purpose of this subparagraph, project year means the twelve month period beginning from the date of countersignature of this Letter Agreement and any subsequent project year;
(e) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in subparagraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(f) furnish to the Bank such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may from time to time reasonably request.

6. Suspension and Cancellation

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) the Recipient has failed to comply with any of its obligations herein specified; or (b) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by written notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account: (a) at any time after the right of the Recipient to make withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, within six (6) months after the effective date hereof, to carry out the Project.

7. Disclosure of Information

7.1 The Bank may disclose this Letter Agreement and any information in connection thereof pursuant to the Bank’s policy on disclosure of information.
Procurement and Consultants' Services

Section I.

Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section and Sections III and IV of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants’ services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants’ services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services under paragraph 1.2 of the Annex, estimated to cost less than US$350,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services of consulting firms under paragraph 1.2 of the Annex (other than for national and regional conferences) shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services of consulting firms for national and regional conferences, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants
Services under paragraph 1.2 of the Annex in tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every six (6) months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants’ services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms, the procedures set forth in paragraphs 2, 3, and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Guidelines shall also apply to such contracts.

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 Consultant Guidelines shall apply.

Section III. Special Provisions

In addition and without limitation or restriction to any other provision set forth in this Attachment or the Consultant Guidelines, the following provisions shall govern all employment of consultants referred to in Section I 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.
Special Account

1. For the purposes of this Attachment:
   (a) the term "eligible categories" means the categories set forth in paragraph 4.2 of the Annex to this Letter-Agreement;
   (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Activities and to be financed out of the proceeds of the Grant; and
   (c) the term "Authorized Allocation" means the amount of US$ 25,000 to be withdrawn from the Grant Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Attachment II.

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

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) The Recipient shall furnish to the Bank a request or requests for a 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
   (b) (i) For replenishment of the Special Account, the Recipient 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 Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant Account under the 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 Recipient out of the Special Account, the Recipient 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 Attachment, 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 Recipient directly from the Grant Account;

(b) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of paragraph 6.1 of the Annex to this Letter-Agreement; or

(c) once the total unwithdrawn amount of the Grant shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.