

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 477-1234
Cable Address: INTBAFRAD
Cable Address: INDEVAS

February 23, 2004

Dr. Juan Velit Granda
Agencia Peruana de Cooperación Internacional
Ave. Jose Pardo 261
Miraflores
Lima 18
Peru

Luis Castañeda Lossio
Mayor of Lima
Metropolitan Municipality of Lima
Plaza de Armas,
Lima, Republic of Peru

Re: Japan Social Development Fund Grant for Lima Rapid Empowerment Fund
Grant TF052877

Dear Sirs:

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement, as administrator of grant funds provided by Japan under the Japan Social Development Fund, to make a grant in an amount not exceeding one million, one hundred and forty-five thousand US dollars (US\$ 1,145,000) (the Grant) to the Metropolitan Municipality of Lima (MML) (the Recipient) for the benefit of the Republic of Peru (the Beneficiary).

The Grant is made in response to the Recipient's request for financial assistance for the project described in paragraph 1.2 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.

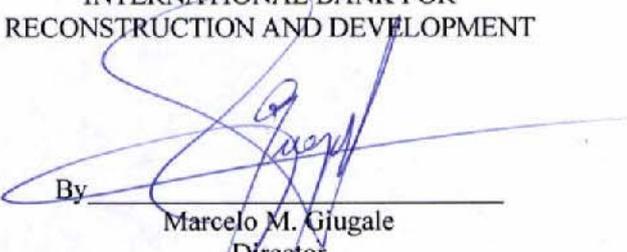
It is the Bank's policy to make publicly available this Letter Agreement and any information related thereto, after this Letter Agreement has become effective and the Recipient has given its consent to such disclosure. The Recipient, by countersigning this Letter Agreement, confirms its consent to such disclosure.

The Beneficiary hereby confirms its support for, and its commitment to, the objectives of the Project to be financed by the Grant, and to this end, hereby undertakes to take all action necessary or appropriate to enable the Recipient to carry out its obligations set forth in this Letter Agreement and the Annex and Attachments hereto.

Please confirm your agreement with the foregoing, on behalf of the Beneficiary and 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 both of you, this Letter Agreement will become effective as of the date of the countersignature by the authorized representatives of the Republic of Peru and of the Metropolitan Municipality of Lima, whichever is the later.

Very truly yours,
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Marcelo M. Giugale
Director

Bolivia, Ecuador, Peru and Venezuela
Latin America and the Caribbean Region

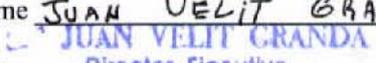
ENDORSED:

REPUBLIC OF PERU


Agencia Peruana de Cooperación
Internacional

By authorized Representative

Name JUAN VELIT GRANDA


Title Director Ejecutivo
Agencia Peruana de Cooperación Internacional

Date: 13 MAYO 2004

AGREED:

Metropolitan Municipality of Lima

By authorized Representative

Name  LUIS CASTAÑEDA LOSSIO
ALCALDE DE LIMA

Title _____

Date: 13 MAY 2004

ANNEX

Objectives, Terms, and Conditions of the Grant

1. Objectives and Description of the Project

1.1. The objectives of the Project are to reduce poverty in Lima's poorest community through demand driven empowerment grants that (a) improve the quality of basic service delivery; (b) build wide ranging community capacity in poverty analysis , planning, and project development; and (c) introduce institutional and administrative reforms that increase the engagement of poor residents in the local governance process. The Lima Rapid Empowerment Fund (REF) will be organized around partnerships between community associations, NGOs, Municipalities, service providers and districts municipalities and implemented in conjunction with the Lima City Poverty Strategy (Lima CPS). The Grant will complement the Bank-financed Lima Transport Project (North-South Subsystem) (Loan Number 7209 - PE) currently under early implementation

1.2. The Project consists of the following Parts, each of which includes the following Activities:

Part A: Rapid Empowerment Fund Sub-Grant Facility

Aims to: (a) improve the reach and quality of basic services in poor communities; (b) build the capacity of community associations and local governments (Sub-grant Recipient) to collectively formulate a poverty strategy for Lima; and (c) identify and introduce institutional and administrative reforms that increase the poor's influence over local government decisions. This Activity is estimated to cost approximately US\$1,000,000.

Part B: Technical Assistance for Fund Management

Ensure that: (a) Lima REF Operations Manual has been drafted; (b) System for financial management and procurement of the Lima REF has been institutionalized; and (c) IEC has been design and launched. This Activity is estimated to cost approximately US\$105,000.

Part C: Social Impact Assessment, Monitoring, Evaluation and Audits:

This sub-component will assist in the: (a) undertaking of social impact assessments of Lima REF investments; and (b) formulation and execution of a monitoring, evaluation and audit system for the Lima REF - including all sub-grants. This Activity is estimated to cost approximately US\$40,000.

2. Implementation Generally

2.1. The Recipient shall: (a) carry out the Project 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; (e) take all necessary measures required to enable the Bank to visit the territory of Republic of Peru for purposes related to the Grant; and (f) cause all goods and services financed out of the proceeds of the Grant to be used exclusively for the purposes of the Project. 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. Except as the Bank shall otherwise agree, the Recipient shall: (a) apply criteria, policies, procedures and guidelines set out in its Operating Manual and its Administrative and Financial Procedure Manual; and (b) not amend, waive, permit to be amended or waived the Operating Manual and its Administrative and Financial Procedure Manual or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project.

2.3 Without limitation upon the foregoing provisions, no Activity under Part A of the Project shall be eligible for financing out of the proceeds of the Grant unless (a) the Recipient has determined, on the basis of the appraisal conducted in accordance with the guidelines set forth by the Operating Manual, that the relevant selected Sub-grant Recipient satisfies the eligibility criteria specified in the Recipient's Operating Manual, and (b) the relevant Activity shall be carried out pursuant to sub-grant agreements, to be executed between the Recipient and the selected Sub-grant Recipient, and to the satisfaction of the Bank, which, *inter alia*, the existence of explicit partnership between community groups and representative of local government and all grants will require a minimum 10% cash or in kind co-financing. No sub-grant should exceed US\$50,000.

3. Procurement

3.1. Except as the Bank shall otherwise agree, procurement of the goods, and 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.

3.2. The Recipient shall ensure that all imported goods to be financed out of the proceeds of the Grant shall be insured against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and that any indemnity for such insurance is payable in a freely usable currency to replace or repair such goods. The Recipient shall ensure that any facilities relevant to the Project are at all times operated and maintained in accordance with appropriate practices and that any repairs or renewals of such facilities are promptly made as needed.

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 there from 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 table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category, and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (in US Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services and Audits	135,000	100%
(2) Goods	10,000	85%
(3) Goods and Services for Sub-grants under Part A of the Project	1,000,000	100% of foreign expenditures 85% of local expenditures
TOTAL	<u>1,145,000</u>	

For purposes of this paragraph, the term "foreign expenditures" means expenditures in the currency of any country other than that of the Republic of Peru for goods or consultants' services supplied from the territory of any country other than that of the Republic of Peru, and the term "local expenditures" means any expenditures that are not foreign expenditures, provided, however, that if the currency of the Republic of Peru is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be foreign expenditures.

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; (ii) on account of payments for any taxes levied by or in the territory of the Recipient on goods; (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 June 30, 2006 or such later date that the Bank shall establish by notice to the Recipient (the Closing Date). However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date if the corresponding withdrawal application is received by the Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

(c) If, in the Bank's opinion, an amount of the Grant allocated to any of the Categories in the table in paragraph 4.2 above will be insufficient to finance the expenditures under such Category, the Bank may, by written notice to the Recipient, reallocate to such Category an amount of the Grant then allocated to another Category 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 authorized official 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 under contracts for: (a) services of consulting firms costing less than US\$100,000 equivalent; (b) services of individual consultants costing less than US\$ 50,000 equivalent; and (c) purchase of goods, all 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.

4.7. To facilitate the carrying out of the Project, the Recipient may open and maintain in US Dollars a special deposit account (the Special 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 Attachment II to this Annex.

5. Accounts and Audits

(a) The Recipient shall maintain or cause to be maintained 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 Activities.

(b) The Recipient shall: (i) have the financial statements referred to in subparagraph (a) above for each such fiscal year (or other period agreed to by the Bank), 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 subparagraph (a) above for such year or such 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 shall have reasonably requested.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient 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 Grant 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 subparagraph (b) above.

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 the Republic of Peru, or any other entity to which the Bank has made a loan with the guarantee of the Republic of Peru, 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 months after the effective date hereof, to carry out the Project.

Procurement

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.

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, 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' services for the Activities 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 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for Activities under paragraph 1.2 of the Annex estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Quality-Based Selection

Services for Activities under paragraph 1.2 of the Annex estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.2 of the Consultant Guidelines

3. Individual Consultants

Services rendered by individual consultants for the Activities under paragraph 1.2 of the Annex to this Letter Agreement for 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 5.3 of the Consultant Guidelines, and, if applicable, said consultants' services may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Bank.

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 12 months during the execution of the Activities, 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 shall have been approved by the Bank.

2. Prior Review

With respect to each contract for the employment of (a) consulting firms, regardless of value; (b) the first two contracts for individual consultants, regardless of value; and (c) all individual consultants to be selected on a sole-source basis, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, 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 said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant 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 II. Procurement of Goods

1. Goods shall be procured: (a) 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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines. The review procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to such contracts, provided that the word "bids", in such paragraph 4, shall be read as "quotations".

2. Prior Review

With respect to the first contract for goods procured using shopping procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

Attachment II

Special Account

1. For the purposes of this Attachment:

(a) the term "eligible Categories" means the Categories (1), (2) and (3) set forth in the table 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 goods and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of paragraph 4.2 of the Annex to this Letter Agreement; and

(c) the term "Authorized Allocation" means the amount of US\$ 100.000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Attachment.

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 the Recipient shall have failed to furnish to the Bank, within the period of time specified in paragraph 5.1 (b) (ii) of the Annex to this Letter Agreement, any of the audit reports required to be furnished to the Bank pursuant to said paragraph 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 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

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

Thereafter, withdrawals 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.