
LOAN NUMBER 1771 PE

Loan Agreement

(Second Irrigation Rehabilitation
Project - Lower Piura)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *February 4*, 1980

LOAN AGREEMENT

AGREEMENT, dated February 4, 1980, between REPUBLIC OF PERU (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS (A) the Borrower has requested the Bank to assist in the financing of a portion of the foreign exchange cost of the Project described in Schedule 2 to this Agreement by making the Loan as hereinafter provided;

(B) the Borrower: (i) has entered with the Republic of Ecuador into an agreement dated September 27, 1971 concerning the utilization of the bi-national Puyango-Tumbes and Catamayo-Chira River Basins; and (ii) warrants and represents that the execution of the Project will fully satisfy the provisions of such agreement;

(C) the Borrower and Energoprojekt Engineering Company, a corporation organized under the laws of the Socialist Federal Republic of Yugoslavia (such corporation hereinafter called Energoprojekt): (i) have entered into a contract dated July 26, 1979 (such contract hereinafter called the Energoprojekt Financing Contract) whereby Energoprojekt undertakes to assist in financing, inter alia, Part A.1 and Part A.2 of the Project on the terms and conditions set forth in the Energoprojekt Financing Contract; and (ii) intend to enter into a contract (such contract hereinafter called the Energoprojekt Execution Contract) whereby Energoprojekt undertakes to perform certain services and execute certain works for the Borrower and for purposes of Part A.1 and Part A.2 of the Project on the terms and conditions set forth in such Energoprojekt Execution Contract; and

(D) the Bank and Energoprojekt intend to enter into an agreement (hereinafter called Memorandum of Agreement) satisfactory to the Borrower regulating certain matters of common interest in connection with such financing;

WHEREAS the Bank has agreed, on the basis inter alia of the foregoing, to make the Loan to the Borrower upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated March 15, 1974, with the same force and effect as if they were fully set forth herein (said General Conditions Applicable to Loan and Guarantee Agreements of the Bank being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, 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) "Project Area" means an area of about 47,000 hectares within the Lower Piura Valley of the Borrower;
- (b) "Ministerio" means the Borrower's Ministry of Agriculture and Food or any successor thereto;
- (c) "DEPECHP" means Dirección Ejecutiva del Proyecto Especial Chira-Piura, the Borrower's Directorate for the Chira-Piura Special Project established within Ministerio by the Borrower's Decree Law No. 18381, dated September 1, 1970, and Supreme Decree 250/73 AG, dated February 21, 1973;
- (d) "DDA" means Dirección de Desarrollo Agropecuario, DEPECHP's Directorate of Agriculture and Livestock Development;
- (e) "DEO" means Dirección de Estudios y Obras, DEPECHP's Directorate of Studies and Works;
- (f) "DRT" means Dirección de Rehabilitación de Tierras, DEPECHP's Directorate of Land Reclamation;
- (g) "DOM" means Dirección de Operación y Mantenimiento, DEPECHP's Directorate of Operation and Maintenance;
- (h) "BAP" means Banco Agrario del Perú or any successor thereto;

(i) "Small Farmer" means a farmer in the Project Area with land holdings of up to 15 hectares;

(j) "sub-borrower" means a farmer in the Project Area or an association of such farmers, to which a sub-loan is made or proposed to be made;

(k) "sub-loan" means a loan to finance a farm development plan made or to be made to a sub-borrower in accordance with the provisions of Section 3.02 of this Agreement and to be partly financed out of the proceeds of the Loan;

(l) "farm development plan" means a plan consisting of on-farm improvements and investments included in Part D of the Project, to be carried out by a sub-borrower and to be financed in part by means of a sub-loan;

(m) "DEPERTC" means Dirección Ejecutiva del Proyecto Especial de Rehabilitación de Tierras Costeras, the Borrower's Directorate for the Coastal Lands Special Project established within Ministerio by the Borrower's Supreme Decree 411-77-AG, dated September 29, 1977;

(n) "CENCIRA" means Centro Nacional de Capacitación e Investigación para la Reforma Agraria;

(o) "INIA" means Instituto Nacional de Investigación Agrícola;

(p) "Sol" means the currency unit of the Borrower; and

(q) "Original Price" means the base price included in a contract and the term includes automatic adjustments to such price provided for in such contract.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to fifty six million dollars (\$56,000,000).

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

Section 2.03. Except as the Bank shall otherwise agree, procurement of the goods and civil works to be financed out of the proceeds of the Loan (other than goods and works financed under sub-loans), shall be governed by the provisions of Schedule 4 to this Agreement.

Section 2.04. The Closing Date shall be December 31, 1985 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. The Borrower shall pay interest at the rate of seven and ninety-five hundredths per cent (7.95%) per annum on the principal amount of the Loan withdrawn and outstanding from time to time.

Section 2.07. Interest and other charges shall be payable semiannually on February 15 and August 15 in each year.

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

Section 2.09. The General Manager of BAP (or the person or persons authorized by him in writing for the purpose) is hereby 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 in respect of Part D of the Project.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower shall carry out the Project through Ministerio and DEPECHP with due diligence and efficiency and in conformity with appropriate agricultural, administrative, economic, engineering and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

Section 3.02. (a) For purposes of the carrying out of Part D of the Project, the Borrower shall enter with BAP into a contract satisfactory to the Bank providing, inter alia, for:

- (i) the making of sub-loans by BAP in accordance with the operating policies and procedures set forth in Schedule 5 to this Agreement;
- (ii) the making of contributions by the Borrower to BAP's equity by means of: (A) the transfer to BAP of the equivalent in Soles of the proceeds of the Loan withdrawn by BAP from time to time from the Loan Account for Part D of the Project; and (B) the transfer to BAP, as and when requested by BAP, of funds equivalent to 30% of the sub-loans; and
- (iii) the provision by BAP of short-term production credit out of funds other than those referred to in (ii) above to the extent required to meet the production needs of farmers in the Project Area.

(b) The Borrower shall exercise its rights and comply with its obligations under the contract referred to in (a) above in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purpose of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce such contract or any provision thereof.

(c) Notwithstanding the aforesaid, the Borrower shall, and shall cause BAP to, review from time to time, in consultation with the Bank, the interest rate applicable to sub-loans, so as to take account of relevant changes in inflationary trends and capital market conditions; provided, however, that, except as the Borrower

..... se agree, such rate shall not be lower
..... BAP, as of August 31, 1979, which is
mentioned in Part 2 (a) of Schedule 5 to this Agreement.

Section 3.03. In order to assist the Borrower in the preparation of final design for civil works under Parts A.3, A.4 and B of the Project, in the supervision of all civil works under Parts A, B.1 and C of the Project and in the carrying out of Part G of the Project, the Borrower shall: (a) employ consultants or experts, as the case may be, whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank, and (b) provide the services of such consultants or experts, as and when needed, to Ministerio, DEPECHP and to the relevant administrative subdivisions of the latter.

Section 3.04. (a) The Borrower shall, not later than June 30, 1980: (i) prepare, through DEPECHP, maintenance plans for the irrigation and drainage systems in the Project Area, including a list of equipment to be acquired under Part E of the Project, (ii) furnish such plans to the Bank, (iii) introduce in such plans such modifications as the Bank shall reasonably request, and (iv) carry out the maintenance of such irrigation and drainage systems in accordance with such plans as so modified.

(b) The Borrower shall, through DRT as and when needed for purposes of the Project, prepare engineering designs for field drains under Part B.2 of the Project which shall be based on the monitoring by DEPECHP of the water table levels and soil salinization in the Project Area.

Section 3.05. (a) The Borrower shall, through DEPECHP: (i) not later than six months from the date of this Agreement, enter with CENCIRA into adequate contractual arrangements under which (A) CENCIRA shall organize and conduct courses for purposes of training extension agents whose services will be provided to Small Farmers in the Project Area under Part F.1 of the Project, and (B) the Borrower, through DEPECHP, shall provide the funds and other resources required for the purpose; and (ii) not later than six months from the date of this Agreement, enter with INIA into adequate contractual arrangements under which (A) INIA shall expand and improve its applied research activities in the Chira research station in order to assist DEPECHP, for purposes of the Project, in developing production technical packages for the several crops in the Project Area and in carrying out, in the Project Area, irrigation and drainage research activities and (B)

the Borrower, through DEPECHP, shall provide to INIA the services of the experts hired for the purpose pursuant to Section 3.03 of this Agreement and funds in amounts adequate to finance its activities under the Project.

(b) The Borrower shall exercise its rights and comply with its obligations under the contractual arrangements referred to in (a) above in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purpose of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not change or fail to enforce any of such contractual arrangements.

Section 3.06. (a) The Borrower undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Loan against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Borrower to replace or repair such goods.

(b) Except as the Bank shall otherwise agree, the Borrower shall cause all goods and services financed out of the proceeds of the Loan to be used exclusively for the Project.

Section 3.07. (a) The Borrower shall furnish to the Bank, promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Bank shall reasonably request.

(b) The Borrower, through DEPECHP: (i) shall maintain records and procedures adequate to record and monitor the progress of the Project (including its cost, the benefits to be derived from it and the changes in the water table levels and soil salinity in the Project Area), to identify the goods and services financed out of the proceeds of the Loan, and to disclose their use in the Project; (ii) shall enable the Bank's accredited representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Loan and any relevant records and documents; and (iii) shall furnish to the Bank at regular intervals all such information as the Bank shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be

derived from it, the expenditure of the proceeds of the Loan and the goods and services financed out of such proceeds.

(c) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, the Borrower shall prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Bank of their respective obligations under the Loan Agreement and the accomplishment of the purposes of the Loan.

Section 3.08. The Borrower shall carry out the Project with due regard to health, ecological and environmental factors.

Section 3.09. The Borrower shall take all such action as shall be necessary to acquire as and when needed all such land and rights in respect of land as shall be required for carrying out the Project and shall furnish to the Bank, upon the Bank's request, evidence satisfactory to the Bank that such land and rights in respect of land are available for purposes related to the Project.

Section 3.10. The Borrower shall, not later than December 31, 1980, prepare terms of reference satisfactory to the Bank for purposes of Part G.2 of the Project.

ARTICLE IV

Other Covenants

Section 4.01. (a) It is the policy of the Bank, in making loans to, or with the guarantee of, its members not to seek, in normal circumstances, special security from the member concerned but to ensure that no other external debt shall have priority over its loans in the allocation, realization or distribution of foreign exchange held under the control or for the benefit of such member. To that end, if any lien shall be created on any public assets (as hereinafter defined), as security for any external debt, which will or might result in a priority for the benefit of the creditor of such external debt in the allocation, realization or distribution of foreign exchange, such lien shall, unless the Bank shall otherwise agree, ipso facto and at no

cost to the Bank, equally and ratably secure the principal of, and interest and other charges on, the Loan, and the Borrower, in creating or permitting the creation of such lien, shall make express provision to that effect; provided, however, that, if for any constitutional or other legal reason such provision cannot be made with respect to any lien created on assets of any of its political or administrative subdivisions, the Borrower shall promptly and at no cost to the Bank secure the principal of, and interest and other charges on, the Loan by an equivalent lien on other public assets satisfactory to the Bank.

(b) The foregoing undertaking shall not apply to: (i) any lien created on property, at the time of purchase thereof, solely as security for payment of the purchase price of such property; and (ii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

(c) As used in this Section, the term "public assets" means assets of the Borrower, of any political or administrative subdivision thereof and of any entity owned or controlled by, or operating for the account or benefit of, the Borrower or any such subdivision, including gold and other foreign exchange assets held by any institution performing the functions of a central bank or exchange stabilization fund, or similar functions, for the Borrower.

Section 4.02. (a) The Borrower shall maintain or cause to be maintained such separate accounts and records as shall be adequate to reflect in accordance with consistently maintained sound accounting practices the operations, resources and expenditures, in respect of the Project, of DEPECHP, BAP and the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall cause: (i) the accounts referred to in paragraph (a) hereof for each fiscal year to be audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (ii) to be furnished to the Bank as soon as available, but in any case not later than four months after the end of each such year, (A) certified copies of such accounts for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested;

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

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.04. The Borrower shall take all such action as shall be necessary to ensure that: (i) DEPECHP is vested with all powers which are necessary or convenient to provide the Project Area with all services required for such area, including agricultural extension, land reclamation, and maintenance of the irrigation and drainage systems; and (ii) the Distrito de Riego, having jurisdiction on the Project Area, is provided with all funds, facilities, services (including DEPECHP's assistance to such Distrito de Riego) and other resources as shall be required for the operation of the irrigation and drainage systems referred to in (i) above.

Section 4.05. (a) The Borrower shall: (i) subject to Section 3.04 of this Agreement, cause all facilities included in the Project to be adequately maintained; (ii) cause all necessary renewals and repairs to be made thereto; and (iii) provide, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Notwithstanding the provisions of paragraph (a) hereof, the Borrower shall make arrangements satisfactory to the Bank to cause the diversion dam and dikes included in the Project, as well as the existing Poechos dam, dikes related thereto and other structures essential to the satisfactory operation of the Poechos reservoir and of the Project (all such facilities hereinafter called the Structures), to be periodically inspected in accordance with appropriate engineering practices with the view of determining any actual or potential deficiency in the condition of the Structures, or in the quality and maintenance or the methods of operation thereof, which may endanger the safety of the Structures.

Section 4.06. (a) The Borrower shall take all such action as shall be necessary to ensure that users of irrigation and water services provided by each of the facilities to be rehabilitated or constructed under the Project shall pay such water charges as

shall be required to cover: (i) the operating and maintenance costs of such facility; and (ii) as much as practicable of the investment costs of such facility as it shall be determined by the ability of the users of such facility to pay for such costs over a period of not more than 50 years counted from the completion of the rehabilitation or construction works of such facility.

(b) The Borrower shall, not later than December 31, 1982 and at least once every two years thereafter: (i) review the level and structure of such water charges taking into account the effect of inflation and the ability of users to pay such charges; and (ii) promptly make adjustments in such water charges as required.

(c) The Borrower shall take all such action as shall be necessary to ensure that, by December 31, 1983 and thereafter, a portion of the water charges collected from the users within each Distrito de Riego of the Borrower as shall be equal to the operating and maintenance costs of the irrigation and drainage system under the jurisdiction of such Distrito de Riego shall, upon collection of such charges, be transferred to the authority of such Distrito de Riego.

ARTICLE V

Remedies of the Bank

Section 5.01. For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) an extraordinary situation shall have arisen which shall make it improbable that BAP will be able to perform any of its obligations under the contract referred to in Section 3.02 of this Agreement;

(b) a change in the legislation of the Borrower shall have occurred which shall materially and adversely affect the execution of the Project or the ability of BAP to perform its obligations under the contract referred to in Section 3.02 of this Agreement;

(c) CENCIRA or INIA shall have failed to perform any of its respective obligations under the contractual arrangements referred to in Section 3.05 of this Agreement, and as a result thereof, the execution of the Project shall have been or shall be materially and adversely affected;

(d) any of the parties to the Energoprojekt Financing Contract or to the Energoprojekt Execution Contract shall have failed to perform any of its respective obligations thereunder, and as a result thereof, the execution of the Project shall have been or shall be materially and adversely affected; and

(e) (i) notwithstanding the provisions of paragraph (d) hereof and subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to (1) utilize the financing provided to the Borrower under the Energoprojekt Financing Contract or (2) to withdraw proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Energoprojekt Financing Contract or other agreement providing for each such grant or loan, or

(B) any such loan or any of the promissory notes issued under the Energoprojekt Financing Contract shall have become due and payable prior to the agreed maturity thereof; and

(ii) subparagraph (i) of this paragraph shall not apply if: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement, and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following events are specified pursuant to paragraph (h) thereof:

(a) any event specified in paragraph (c) or paragraph (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraph (b) or paragraph (e) (1) (B) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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:

(a) the execution of the contract referred to in Section 3.02 (a) of this Agreement on behalf of the Borrower and BAP has been duly authorized or ratified by all necessary governmental and corporate action; and

(b) the execution of the Energoprojekt Execution Contract on behalf of the Borrower and Energoprojekt has been duly authorized or ratified by all necessary governmental and corporate action and all conditions to the effectiveness thereof, if any, have been fulfilled.

Section 6.02. 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 certificate or opinion or opinions to be furnished to the Bank, namely, that the contracts referred to in Section 6.01 of this Agreement are legally binding on the parties thereto.

Section 6.03. The date of May 6, 1980 is hereby specified for purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Borrower's Ministro de Economía y Finanzas and the Director General de Crédito Público of the Ministerio de Economía y Finanzas of the Borrower are severally designated as representatives of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministerio de Economía
y Finanzas
Avda. Abancay 5^{ta} Cuadra
Lima, Perú

Cable address:

Telex:

MINDEF
Lima

20187 PU MINDEF

For the Bank:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

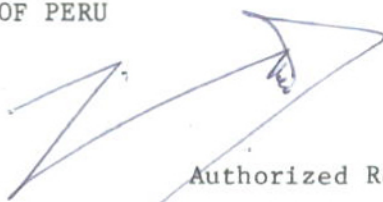
440098 (ITT)
248423 (RCA) or
64145 (WUI)

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused

this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF PERU

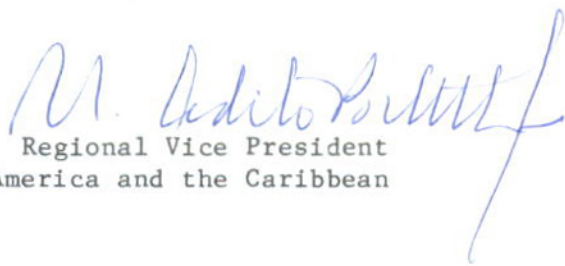
By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works for Parts A.3, A.4, A.5 and B of the Project and engineering and supervision services for Parts A, B.1 and C of the Project	29,600,000	65%
(2) Pipes and equipment for Parts B.2 and E of the Project, respectively:	5,600,000	
(a) imported		100% of foreign expenditures
(b) locally procured		80% of local expenditures
(3) Sub-loans for Part D of the Project	5,900,000	70% of amounts disbursed by BAP for purposes of the Project
(4) Operating expenses for Part F.1 and Part F.2 of the Project	2,100,000	65%

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollar Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Training under Part F.3 of the Project and expert services under Part G of the Project	900,000	100%
(6) Unallocated	11,900,000	
	<hr/>	
TOTAL	56,000,000	
	<hr/> <hr/>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than the Borrower and for goods or services supplied from the territory of any country other than the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower and for goods or services supplied from the territory of the Borrower.

3. The disbursement percentages have been calculated in compliance with the policy of the Bank that no proceeds of the Loan shall be disbursed on account of payments for taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof; to that end, if the amount of any such taxes levied on or in respect of any item to be financed out of the proceeds of the Loan decreases or increases, the Bank may, by notice to the Borrower, increase or decrease the disbursement percentage then applicable to such item as required to be consistent with the aforementioned policy of the Bank.

4. 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.

5. Notwithstanding the allocation of an amount of the Loan or the disbursement percentages set forth in the table in paragraph 1 above, if the Bank has reasonably estimated that the amount of the Loan then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Bank may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Loan which are then allocated to another Category and which in the opinion of the Bank are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Bank shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Loan and the Bank may, without in any way restricting or limiting any other right, power or remedy of the Bank under the Loan Agreement, by notice to the Borrower, cancel such amount of the Loan as, in the Bank's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Loan.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase agricultural production and productivity in the Project Area and to raise the income of farmers therein, all by means of rehabilitation of irrigation facilities, completion of drainage networks, flood control, provision of credit for on-farm investments, and provision of services related thereto.

The Project consists of the following:

Part A: Rehabilitation of the Irrigation System of the Project Area

1. Construction of a diversion dam on the Piura River.
2. Construction, including lining, of a main irrigation canal about 40 kilometers long.
3. Rehabilitation and lining of about 112 kilometers of secondary canals and about 78 kilometers of tertiary canals.
4. Rehabilitation of about 1,200 kilometers of lateral and sublateral canals.
5. Construction of about 2,900 square meters of buildings to serve as headquarters for the Middle and Lower Piura Irrigation Authority, DRT and DDA.

Part B: Completion of the Drainage System of the Project Area

1. Construction of about 15 kilometers of main, and about 415 kilometers of collector, drainage canals.
2. Construction of about 1,000 kilometers of field drains.

Part C: Flood Control Works in the Project Area

Improvement of existing, and construction of about 50 kilometers of new, dikes for, and realignment of, the Piura River, all to confine the river between two embankments (about 500 to 600 meters apart), running for about 24 kilometers from Puente Piura

to Laguna Ramón along the right bank, and for about 26 kilometers from Puente Piura to Ventura along the left bank.

Part D: Sub-loans

Making of medium- and long-term sub-loans to sub-borrowers for farm development plans for:

1. Land levelling of, and construction of irrigation ditches, soil leaching and application of gypsum to alkaline soils in, farms within the irrigable portion of the Project Area.
2. Only in respect of Small Farmers, on-farm construction and purchase of dairy livestock.

Part E: Equipment

Acquisition for, and utilization by: (i) DEPECHP, of maintenance equipment, a laboratory for soil and water analysis and topographical and office equipment; and (ii) each of DRT, DOM and DDA, of vehicles for the provision of services by them in respect of the Project Area.

Part F: Technical Services

Strengthening of DEPECHP by:

1. Providing, under DDA, incremental agricultural extension services to Small Farmers.
2. Providing, under DRT, land reclamation services in the Project Area.
3. Arranging short courses and field training assignments of up to six months abroad for DEPECHP's staff, in the fields of irrigation, drainage, land reclamation, operation and maintenance of irrigation and drainage systems, farm management and other Project related fields.

Part G: Technical Assistance

1. Provision to, and utilization by, Ministerio and DEPECHP of about sixty man-months of experts' services for purposes of the Project, including:

- (a) assistance to DRT in planning, designing and constructing field drains under Part B.2 of the Project and on-farm development works under Part D of the Project, and monitoring the effects of the drainage system in the Project Area;
 - (b) assistance to DOM in developing and putting into operation the maintenance plans referred to in Section 3.04 of this Agreement;
 - (c) assistance to DDA in establishing the extension services and developing crop production packages for the Project Area; and
 - (d) assistance to DOM in developing a plan for optimal utilization of the Chira-Piura water resources and in defining operating rules for the Poechos reservoir.
2. Preparation by DEPECHP, in collaboration with DEPERTC, of basic and feasibility studies for irrigation rehabilitation works for the Chira-Piura hydrologic systems.

* * *

The Project is expected to be completed by June 30, 1985.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (expressed in dollars)*</u>
On each February 15 and August 15 beginning August 15, 1984 through August 15, 1996	2,155,000
On February 15, 1997	2,125,000

* To the extent that any portion of the Loan is repayable in a currency other than dollars (see General Conditions, Section 4.02), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of the Loan pursuant to Section 3.05 (b) of the General Conditions:

<u>Time of Prepayment</u>	<u>Premium</u>
Not more than three years before maturity	1.40%
More than three years but not more than six years before maturity	2.80%
More than six years but not more than eleven years before maturity	5.15%
More than eleven years but not more than fifteen years before maturity	7.00%
More than fifteen years before maturity	7.95%

SCHEDULE 4

Procurement

A. International Competitive Bidding

1. Except as provided in Parts C and E hereof, goods and civil works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods and works to be procured on the basis of international competitive bidding, in addition to the requirements of paragraph 1.2 of the Guidelines, the Borrower shall prepare and forward to the Bank as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender or prequalification documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Bank shall reasonably request; the Bank will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods and works in question. The Borrower shall provide the necessary information to update such notice annually so long as any goods or works remain to be procured on the basis of international competitive bidding.

3. (i) Bidders for the works included in Parts A.3 and B.1 of the Project shall be prequalified as described in paragraph 1.3 of Part A of the Guidelines; and (ii) contracts for the works included in Part A.3 and B.1 of the Project shall be grouped, whenever possible, in bidding packages estimated to cost not less than the equivalent of \$5,000,000.

4. For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding, (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for domestically manufactured goods; (ii) customs duties and other import taxes on goods evaluated on a c.i.f. basis and sales and similar taxes (applicable to finished domestic products) on goods evaluated on an ex-factory basis,

shall be excluded; and (iii) the cost to the Borrower of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation, shall be included.

B. Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A of this Schedule, goods manufactured in Perú may be granted a margin of preference in accordance with, and subject to, the following provisions:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which will be granted, the information required to establish the eligibility of a bid for such preference and the following methods and stages that will be followed in the evaluation and comparison of bids.

2. After evaluation, responsive bids will be classified in one of the following three groups:

- (1) Group A: bids offering goods manufactured in Perú if the bidder shall have established to the satisfaction of the Borrower and the Bank that the manufacturing cost of such goods includes a value added in Perú equal to at least 20% of the ex-factory bid price of such goods.
- (2) Group B: all other domestic bids.
- (3) Group C: bids offering any other goods.

3. All evaluated bids in each group shall be first compared among themselves, excluding any customs duties and other import taxes on goods to be imported and any sales or similar taxes on goods to be supplied domestically, to determine the lowest evaluated bid of each group. Such lowest evaluated bids shall then be compared with each other, and if, as a result of this comparison, a bid from group A or group B is the lowest, it shall be selected for the award.

4. If, as a result of the comparison under paragraph 3 above, the lowest bid is a bid from group C, all group C bids shall be further compared with the lowest evaluated bid from group A after adding to the evaluated bid price of the imported goods offered in each group C bid, for the purpose of this further

comparison only, an amount equal to: (i) the amount of customs duties and other import taxes which a non-exempt importer would have to pay for the importation of the goods offered in such group C bid; or (ii) 15% of the c.i.f. bid price of such goods if said customs duties and taxes exceed 15% of such price. If the group A bid in such further comparison is the lowest, it shall be selected for the award; if not, the bid from group C which as a result of the comparison under paragraph 3 is the lowest evaluated bid shall be selected.

C. Other Procurement Procedures

1. Contracts for civil works under Part A.4 and Part A.5 of the Project and contracts for the purchase of goods (other than maintenance equipment) may be procured under bidding procedures locally advertised, provided such procedures are satisfactory to the Bank.

2. Contracts for civil works under Part B.2 of the Project which are not carried out by force account may be awarded through direct negotiations between DEPECHP and contractors satisfactory to the Bank.

D. Review of Procurement Decisions by the Bank

1. Review of prequalification. The Borrower shall, before qualification is invited, inform the Bank in detail of the procedure to be followed, and shall introduce such modifications in said procedure as the Bank shall reasonably request. The list of prequalified bidders, together with a statement of their qualifications and of the reasons for the exclusion of any applicant for prequalification shall be furnished by the Borrower to the Bank for its comments before the applicants are notified of the Borrower's decision, and the Borrower shall make such additions to, deletions from, or modifications in, the said list as the Bank shall reasonably request.

2. Review of invitations to bid and of proposed awards and final contracts:

With respect to all contracts estimated to cost the equivalent of \$1,000,000 or more:

(a) Before bids are invited, the Borrower shall furnish to the Bank, for its comments, the text of the invitations to

bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Bank shall reasonably request. Any further modification to the bidding documents shall require the Bank's concurrence before it is issued to the prospective bidders.

(b) After bids have been received and evaluated, the Borrower shall, before a final decision on the award is made, inform the Bank of the name of the bidder to which it intends to award the contract and shall furnish to the Bank, in sufficient time for its review, a detailed report, by the applicable consultants referred to in Section 3.03 of this Agreement, on the evaluation and comparison of the bids received, together with the recommendations for award of the said consultants and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

(c) The terms and conditions of the contract shall not, without the Bank's concurrence, materially differ from those on which bids were asked or prequalification invited.

(d) Two conformed copies of the contract shall be furnished to the Bank promptly after its execution and prior to the delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract.

3. With respect to each contract not governed by the preceding paragraph, the Borrower shall furnish to the Bank, promptly after its execution and prior to the delivery to the Bank of the first application for withdrawal of funds from the Loan Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Bank shall reasonably request. The Bank shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Borrower and state the reasons for such determination.

4. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension of the stipulated time for performance of such contract, or

issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than 15% of the Original Price, the Borrower shall inform the Bank of the proposed modification, waiver, extension or change order and the reasons therefor. The Bank, if it determines that the proposal would be inconsistent with the provisions of this Agreement, shall promptly inform the Borrower and state the reasons for its determination.

E. Procurement Without Contracting

Civil works under Part B.2 of the Project may be carried out by the Borrower, through DEPECHP, by force account.

SCHEDULE 5

Operating Policies and Procedures

1. Sub-loan Processing

- (a) DEPECHP will assist the sub-borrowers in preparing their farm development plans.
- (b) BAP will make a sub-loan for a farm development plan only after DEPECHP has approved such plan.

2. Terms and Conditions of Sub-loans

- (a) The outstanding principal amount of each sub-loan will bear interest at the rate charged by BAP from time to time on loans for capital investments which, as of August 31, 1979, was 33% per annum, inclusive of commissions and other charges.
- (b) The repayment terms will reflect the payment ability of the sub-borrower and will not exceed 15 years including a maximum grace period for principal repayment of 5 years.
- (c) Sub-loans will be denominated and repayable in Soles.

3. Small Farmers

BAP will assure availability of credit to Small Farmers.