

CONFORMED COPY

LOAN NUMBER 7368-PE

Loan Agreement

(Real Property Rights Consolidation Project)

between

REPUBLIC OF PERU

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated November 3, 2006

LOAN NUMBER 7368-PE

LOAN AGREEMENT

AGREEMENT, dated November 3, 2006, between the REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) on June 15, 2002, the Borrower published Law No. 27755 (Real Property Registry Law) that sets forth the Borrower's legal framework for a unified real property registration;

(C) on July 20, 2002, the Borrower published Law No. 27783 (Decentralization Framework Law) that sets forth the Borrower's legal framework for public administration decentralization;

(D) on May 27, 2003, the Borrower published Law No. 27972 (the Municipalities Organic Law) that establishes the Municipalities' (as hereinafter defined) responsibilities in the matters of local development, zoning and urbanism;

(E) on July 21, 2004, the Borrower published Law No. 28294 (the National Integrated Cadastre System Law) that governs the integration of the standards, nomenclature and technical processes of different cadastre-generating entities at the national and local levels; and

(F) on November 17, 2004, the Borrower published Law No. 28391 (Formalization of the Informal Property Law) that sets forth the Borrower's strategy and policy for the formalization of informal property; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Loan and Guarantee Agreements for Fixed-Spread Loans” of the Bank dated September 1, 1999 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Loan Agreement, the proceeds of the Loan may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower or the Guarantor on the goods or services to be financed under the Loan, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its loans. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Loan is excessive or otherwise unreasonable, the Bank may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Loan Agreement as required to be consistent with such policy of the Bank.”

(b) Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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

(a) “Advisory Committee” (*Comité Asesor*) means the advisory committee referred to in Section 3.05 (c) of this Agreement;

(b) “Annual Operation Plan” means any of the plans referred to in Section 3.08 (a) (i) of this Agreement;

(c) “COFOPRI” means the Borrower’s National Commission for the Formalization of Informal Property (*Comisión de Formalización de la Propiedad Informal*), the Project’s executing entity established pursuant to the Borrower’s Legislative Decree No. 803 (the Promotion of Access to Formal Property Law) as amended to the date of this Agreement;

(d) “District Municipality” means *Municipalidad Distrital*, any of the political subdivisions of a Provincial Municipality (as hereinafter defined) established pursuant to Articles 2 and 3 of the Municipalities Organic Law;

(e) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means the expenditures for goods, consultants’ services, training and operating costs referred to in Section 2.02 of this Agreement;

(g) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 (a) of this Agreement;

(h) “IGN” means the Borrower’s National Geographic Institute (*Instituto Geográfico Nacional*), established pursuant to the Borrower’s Law No. 27292, dated June 23, 2000 and published on June 27, 2000, as amended to the date of this Agreement;

(i) “IGN Cooperation Agreement” means the agreement referred to in Section 3.02 (c), as the same may be amended from time to time in a manner satisfactory to the Bank;

(j) “Implementing Entity” means either COFOPRI, SUNARP or IGN (as the case may be), and “Implementing Entities” means all of the above;

(k) “Management Committee” (*Comité de Gestión*) means the committee established pursuant to Section 3.05 (b) of this Agreement;

(l) “MEF” means the Borrower’s Ministry of Economy and Finance;

(m) “Municipality” means any District Municipality or Provincial Municipality (as hereinafter defined);

(n) “Operational Manual” means the manual for the operation of the Project referred to in Section 3.06 (a) of this Agreement, as the same may be amended from time to time in a manner satisfactory to the Bank;

(o) “Participating Municipalities” means any of the Municipalities set forth in the Operational Manual and any other Municipality that may be added from time to time by agreement between the Borrower, through COFOPRI and the Bank in addition to or in substitution of the original Municipalities;

(p) “Participation Agreement” means any agreement referred to in Section 3.04 (a) of this Agreement;

(q) “PCU” means the Project coordination unit referred to in Section 3.05 (d) of this Agreement;

(r) “Performance Indicators” means the indicators set forth in the Operational Manual for monitoring and evaluating progress towards the attainment of Project objectives;

(s) “Procurement Plan” means the COFOPRI’S procurement plan, dated January 27, 2006 covering the initial eighteen (18) month period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 to this Agreement, to cover succeeding eighteen (18) month periods of Project implementation;

(t) “Project Area” means the area of the Participating Municipalities;

(u) “Provincial Municipality” means *Municipalidad Provincial*, any of the political subdivisions of the territory of the Borrower established pursuant to Articles 2 and 3 of the Municipalities Organic Law;

(v) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;

(w) “SNIP” means *Sistema Nacional de Inversión Pública*, the Borrower’s national system of public investment created and operating under the Borrower’s Law No. 27293, dated June 28, 2000, establishing principles, processes, methodologies and technical guidelines for every phase of public investment in the Borrower’s territory;

(x) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(y) “Steering Committee” (*Comité Directivo*) means the committee established pursuant to Section 3.05 (a) of this Agreement;

(z) “Subsidiary Agreement” means the agreement referred to in Section 3.02 of this Agreement;

(aa) “SUNARP” means the Borrower’s Real Property Registry (*Registro de Predios*) under the National Superintendency of Public Registries (*Superintendencia Nacional de Registros Públicos*) established pursuant to the Borrower’s Law No. 26366 (the Superintendency of Public Registries Law) as amended to the date of this Agreement;

(bb) “SUNARP Cooperation Agreement” means the agreement referred to in Section 3.02 (b) of this Agreement, as the same may be amended from time to time; and

(cc) “VIVIENDA” means the Borrower’s Ministry of Housing, Construction and Sanitation.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to twenty five million Dollars (US\$25,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, consultants’ services, training and operating costs required for the Project and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be December 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (a) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions, to but not including, the fourth anniversary of such date; and (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

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

Section 2.08. The Borrower shall repay the principal amount of the Loan in full on February 15, 2017.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and

- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has made a request, the Borrower shall pay to the Bank any premium payable in accordance with Section 4.04 (c) of the General Conditions.

Section 2.10. The Borrower's Minister at the time responsible for Finance or the Borrower's Director General at the time responsible for public indebtedness, or any person or persons whom he or she shall designate in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project, and, to this end, shall carry out the Project through COFOPRI (pursuant the Subsidiary Agreement), with the cooperation of:

- (i) the Participating Municipalities (pursuant to the Participation Agreements), with respect to Part B of the Project;
- (ii) SUNARP (pursuant to the SUNARP Cooperation Agreement) with respect to Part C.1 C.2 (b), and D.1 of the Project; and
- (iii) IGN (pursuant to the IGN Cooperation Agreement) with respect to Part C.2 (a) of the Project.

all with due diligence and efficiency, and in conformity with appropriate managerial, administrative, and financial practices, including the provision of funds, facilities,

services and other resources, necessary or appropriate to enable each of the Implementing Entities (as the case may be) to perform their respective obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation or restriction to the provisions of paragraph (a) above, the Borrower, through COFOPRI, shall ensure that the Implementing Entities carry out the Project in accordance with the Operational Manual, the Annual Operation Plans and the Procurement Plan.

Section 3.02. (a) the Borrower shall transfer a portion of the proceeds of the Loan to COFOPRI under a subsidiary agreement (the Subsidiary Agreement) to be entered into between the Borrower and COFOPRI, under terms and conditions acceptable to the Bank, setting forth their respective roles and responsibilities regarding the implementation of the Project; and

(b) without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower, through COFOPRI shall enter into and thereafter comply with, a cooperation agreement (the SUNARP Cooperation Agreement) with SUNARP, on terms and conditions satisfactory to the Bank, for the purposes of implementing Parts C.1, C.2 (b) and D.1 of the Project, said agreement to include, *inter alia*, the following obligations:

- (i) maintain records and accounts adequate to reflect the operations, resources and expenditures with respect to their respective Parts of the Project, in order to comply with the obligations under Sections 4.01 and 4.02 of this Agreement;
- (ii) establish the Steering Committee, the Management Committee and the Advisory Committee no later than 60 days after the Effective Date; and
- (iii) comply with the provisions of the Operational Manual, the Annual Operation Plans and the Procurement Plan.

(c) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower, through COFOPRI, shall enter into, no later than June 30, 2006 and thereafter comply with, a cooperation agreement with IGN (the IGN Cooperation Agreement) on terms and conditions satisfactory to the Bank, for the purposes of implementing Part C.2 (a) of the Project, said agreement to include, *inter alia*, the following obligations:

- (i) the obligation of IGN to operate and maintain the geodesic network to be financed under Part C.2 (a) of the Project; and

- (ii) the obligation of IGN to collaborate with COFOPRI in the procurement of the goods and consultants' services for said Part C.2 (a) of the Project, in accordance with the Procurement Plan.

(d) The Borrower shall, and shall cause COFOPRI, to exercise its rights and carry out its obligations under the Subsidiary Agreement, the SUNARP Cooperation Agreement and the IGN Cooperation Agreement, as the case may be, in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and except as the Bank shall otherwise agree, the Borrower and/or COFOPRI shall not assign, amend, abrogate, terminate, waive or fail to enforce the Subsidiary Agreement, the SUNARP Cooperation Agreement or the IGN Cooperation Agreement or any provision thereof.

(e) In case of any conflict among the terms of the Implementation Agreement or the Cooperation Agreement and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.03. (a) Except as the Bank shall otherwise agree, procurement of the goods and services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through COFOPRI, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

(c) The Borrower, through COFOPRI, shall:

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

- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

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

Section 3.04. (a) The Borrower (through COFOPRI) shall enter into agreements (the Participation Agreements) with Provincial Municipalities (or the District Municipalities), under terms and conditions satisfactory to the Bank, for the purposes of ensuring their participation in the implementation of Part B of the Project, such agreements to determine the roles and responsibilities of such Municipalities (the Participating Municipalities), as follows:

- (i) obligations of the Participating Municipalities:
 - (A) to support the participation of community-based organizations in the formalization process; and
 - (B) to allocate appropriate resources (in cash or in kind) for the timely implementation of such Part of the Project;
- (ii) obligations of COFOPRI:
 - (A) to inform interested Municipalities about Project-financed activities;
 - (B) to provide technical assistance and capacity-building to the Municipalities for their institutional strengthening for conducting formalization and cadastre processes; and
 - (C) to evaluate jointly with the Municipalities the results of Project-financed activities.

(b) Pursuant to the Participation Agreements, the parties thereto shall develop and implement action plans to be reflected in the Annual Operation Plans for purposes of strengthening the capacity of the Participating Municipalities to manage their formalization and cadastre programs, as well as to exchange information with other cadastre generating agencies.

(c) The Borrower (through COFOPRI) shall exercise its rights and carry out its obligations under each Participation Agreement in such a manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan and, except as the Bank shall otherwise agree, the Borrower (through COFOPRI) shall not assign, amend, abrogate, waive or fail to enforce any Participation Agreement or any provision thereof.

Section 3.05. At all times during the execution of the Project, the Borrower (through COFOPRI) shall maintain:

(a) a steering committee (the Steering Committee) responsible for general Project supervision, including representatives from VIVIENDA, COFOPRI, IGN, SUNARP, MEF and civil society, with the structure, functions and responsibilities described in the Operational Manual, including, *inter alia*: (i) approval of each Annual Operating Plan and any modification thereof; (ii) review of Project implementation audits and reports; and (iii) responsibility for the preparation of the short list for the selection of key staff for PCU under competitive and transparent procedures;

(b) a management committee (the Management Committee) responsible for the supervision of the PCU and overall management of the Project, including representatives from COFOPRI, IGN and SUNARP with the structure, functions and responsibilities described in the Operational Manual;

(c) an advisory committee (the Advisory Committee), comprising representatives of the private sector, civil society and/or academic institutions, with the structure, functions and responsibilities described in the Operational Manual, including, *inter alia*, responsibility for provision of regular feedback to the Implementing Entities on the Performance Indicators; and

(d) a Project coordination unit (the PCU), within COFOPRI, responsible for day-to-day Project coordination with the structure, functions and responsibilities described in the Operational Manual, which shall include, *inter alia*, responsibility for: (i) preparing the Annual Operation Plans; (ii) overall Project monitoring and evaluation; (iii) processing of documentation required for disbursement of Loan proceeds and for procurement of goods and services under the Project; (iv) updating the Procurement Plan and preparing standard bidding documents, technical specifications for goods, as well as requests of proposals, terms of reference and short lists for consultants' services; and (v) preparing financial statements and FMRs, and maintaining the records and accounts referred to in Article IV of this Agreement.

(e) With regard to the short list of the key staff for the PCU referred to in sub-paragraph (d) above, the procedures followed for their selection and their experience and qualifications shall be satisfactory to the Bank. The Bank shall inform the Borrower the reasons underlying the Bank's findings and recommendations in that regard.

Section 3.06. (a) Pursuant to the SUNARP Cooperation Agreement and the IGN Cooperation Agreement, the Borrower shall issue and apply an operational manual, satisfactory to the Bank, containing, *inter alia*:

- (i) the Project's institutional setup, including specific provisions on detailed arrangements for the carrying out of the Project and a model to be used for the execution of the Participation Agreements;
- (ii) disbursement, accounting, auditing and reporting procedures, including a model to be used in the preparation of FMRs;
- (iii) procurement responsibilities, processes and internal controls; and
- (iv) monitoring and evaluation plans for the Project, including the Performance Indicators.

(b) If any provision of the Operational Manual is inconsistent with a provision of this Agreement, the provisions of this Agreement shall govern.

Section 3.07. The Borrower (through COFOPRI) shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators set forth the Operational Manual, the carrying out of the Project and achievement of the objective thereof; and

(b) not later than December 31 and June 30 of each year of Project implementation, starting in December 31, 2006, furnish to the Bank progress reports on the execution of the Project during the preceding calendar semester, of such scope and in such detail as the Bank may reasonably request, including, *inter alia*:

- (i) information on the progress achieved during the previous calendar semester in the carrying out of the Project (including the status of the procurement under the Project) and the achievement of the objective thereof;
- (ii) an assessment of the issues and options arising from Project implementation;
- (iii) updated implementation and disbursement schedules for the ongoing calendar semester; and

- (iv) a report on compliance with the Borrower's implementation obligations under this Agreement (through COFOPRI) and, whenever necessary, action plans proposed to ensure such compliance.

Section 3.08. (a) The Borrower (through COFOPRI) shall:

- (i) not later than December 15 of each year of Project implementation, starting in December 15, 2006, furnish to the Bank, for its review, an annual operation plan for the following calendar year, such plan to specify: (A) the activities to be financed out of the proceeds of the Loan during the respective calendar year in the Project Area; (B) the implementation schedule; and (C) the required financial and human resources; and
- (ii) upon the Bank's approval, carry out such Annual Operation Plan in accordance with its terms.

(b) The Bank may refrain from approving any Annual Operation Plan if the Bank has determined that the Borrower (through COFOPRI) is not carrying out the Project as provided in this Agreement and no appropriate remedial actions, satisfactory to the Bank, have been taken therefor.

Section 3.09. The Borrower, through COFOPRI and within the framework of SNIP, shall:

(a) not later than November 30 of each year of Project implementation, starting in November 30, 2006, hold a Project annual review with the Bank, such review to be based on the reports referred to in Section 3.07 (b) of this Agreement and to focus, *inter alia*, on:

- (i) progress in the execution of the Project and the achievement of its objective during the previous calendar year;
- (ii) performance of the Implementing Entities;
- (iii) effectiveness of the Participation Agreements in terms of Municipalities' involvement;

- (iv) experience with the rules and procedures set forth in the Operational Manual; and
- (v) justification of the investment and institutional proposals for the implementation of the Project during the subsequent calendar year; and

(b) if, as a result of any of the above reviews, the Bank shall have reasonably determined that the progress in the execution of the Project or in the achievement of its objective is not satisfactory, promptly take or cause to be taken all such remedial action, satisfactory to the Bank, as shall be necessary for the efficient execution of the Project or the timely achievement of its objective.

Section 3.10. The Borrower (through COFOPRI), and within the framework of SNIP, shall:

(a) not later than December 31, 2009, contract an impact evaluation study with independent consultants of experience and qualifications satisfactory to the Bank, operating under terms of reference satisfactory to the Bank, such study to assess overall Project economic and social impact;

(b) not later than June 30, 2010, furnish to the Bank, for its review and comments, the findings and recommendations of such study by said consultants; and

(c) not later than September 30, 2010, review with a sample of Participating Municipalities, the Advisory Committee, and the Steering Committee, as well as other agencies of the Borrower involved in formalization and cadastre processes, the results of such impact evaluation study taking into account the Bank's comments thereon.

Section 3.11. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower (through COFOPRI) shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower (through COFOPRI) and the Bank, a plan for the sustainability of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

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

(b) The Borrower, through COFOPRI, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year, 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 (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower, through COFOPRI, shall:

- (i) retain, until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and

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

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 (b) of this Agreement, the Borrower, through COFOPRI, shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

- (a) COFOPRI, IGN or SUNARP shall have failed to perform any of their respective obligations under the Subsidiary Agreement, the SUNARP Cooperation Agreement or the IGN Cooperation Agreement, as the case may be, that materially and adversely affect the ability of the Borrower and/or COFOPRI, SUNARP or IGN to perform any of its obligations under this Agreement; or

(b) any of the Real Property Registry Law, the Decentralization Framework Law, the Municipalities Organic Law, the National Integrated Cadastre System Law, the Formalization of the Informal Property Law, or any provision thereof shall have been amended, suspended, abrogated, repealed or waived so as to, in the opinion of the Bank, affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any event specified in Section 5.01 (a) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower.

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) that the Subsidiary Agreement, the SUNARP Cooperation Agreement and the IGN Cooperation Agreement shall have been duly executed and delivered by the parties thereto; and

(b) that the Operational Manual shall have been approved by the Bank.

Section 6.02. The date February 1, 2007 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10 of this Agreement, the Minister of Economy and Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Economy and Finance
Jr. Junín 319
Lima 1
Peru

Facsimile: (511) 426-8500

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the Lima, Peru as of the day and year first above written.

REPUBLIC OF PERU

By /s/ Jose Ugarte Maggiolo

Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Marcelo Giugale

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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 Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Goods	4,585,370	65%
(2) Consultants' services (including audits referred to in Sections 4.01 (b) (i) and 3.03 (c) (i) of this Agreement)	14,054,470	65%
(3) Training	3,649,705	65%
(4) Operating costs	2,647,955	65%
(5) Front-end fee	62,500	Amount due under Section 2.04 of this Agreement
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amounts due under Section 2.09(c) of this Agreement
TOTAL	<u><u>25,000,000</u></u>	

2. For the purposes of this Schedule:

(a) the term “training” means reasonable expenditures (other than for consultants' services) incurred for: (i) training materials; (ii) rental of training facilities and other expenditures related to organization of training events; (iii) transportation expenses of trainees; and (iv) subsistence expenses for trainees; and

(b) the term “operating costs” means reasonable expenditures incurred for: (i) transportation and communication services; (ii) office materials and supplies; and (iii) printing and document reproduction services; all related to activities of the PCU (none of which would have been incurred absent the Project) for the implementation and supervision of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$2,500,000, may be made in respect of Categories (1) through (4) set forth in the table in paragraph 1 of Section A of this Schedule on account of payments made for expenditures within twelve months before the date of this Agreement.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) services of individual consultants costing less than \$100,000 equivalent per contract; (c) services of consulting firms costing less than \$200,000 equivalent per contract; and (d) training and operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower, through COFOPRI, may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower. In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower, through COFOPRI, shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower, through COFOPRI, may, for the purposes of the Project, open and maintain in Dollars, a separate special deposit account in its *Banco de la Nación* on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower, through COFOPRI, is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower, through COFOPRI, is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower, through COFOPRI, out of the Special Account, the Borrower shall, through COFOPRI, 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower, through COFOPRI, directly from the Loan Account; or

(c) if the Borrower, through COFOPRI, shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole

discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, through COFOPRI, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, through COFOPRI, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of US\$2,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower, through COFOPRI, shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Borrower, through COFOPRI, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower shall have requested, through COFOPRI.
 - (b) For replenishment of the Special Account, the Borrower, through COFOPRI, shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Borrower, through COFOPRI, shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, through COFOPRI, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrower, through COFOPRI, 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan shall follow such procedures as the Bank shall specify by notice to the Borrower, through COFOPRI. 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, through COFOPRI, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to consolidate a decentralized and sustainable quality real property rights system that facilitates access for the Borrower's population.

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

Part A: Comprehensive Real Property Rights Policies

1. Real Property Rights Knowledge Management:

(a) Establishment of a multi-sectoral commission to analyze priority issues for real property rights.

(b) Carrying out of diagnostic socio-economic studies, in areas like cost-benefit analysis of accessing formality, remaining informal and staying formal with respect to real property rights, credit practices and case studies of land allocation.

(c) Carrying out participation and consultation workshops with key stakeholders on real property rights issues for the development of appropriate policies at the national level, and the definition of the roles and responsibilities of the institutions involved.

2. Legal and Regulatory Reforms:

Preparation of policy reform proposals for the Borrower's new legal and regulatory framework for, *inter alia*:

- (a) real property rights;
- (b) land administration and allocation;
- (c) investment and credit promotion; and
- (d) inter-institutional coordination.

Part B: Decentralized Formalization and Cadastre Services Provision

1. Planning of training activities by COFOPRI.

2. Capacity-building and technical assistance for local governments on formalization services, through the provision of technical assistance and training to the Participating Municipalities and COFOPRI in order to design and implement a formalization strategy adapted to the particularities of each Municipality, including:

(a) activity planning, comprising municipal capacity diagnostic, informal possessions diagnostic and municipal strategy development;

(b) municipal capacity-building, including workshops, internships, in-service training, distance training, ex-post evaluation, and follow-up groups; and

(c) area and lot formalization, including dissemination, inter-institutional coordination, census-taking and publication, field work categorization, mapping, legal analysis, titling and registration.

3. Capacity-building and technical assistance for local governments on cadastre services, through the provision of technical assistance and training to the Participating Municipalities and COFOPRI in order to design and implement a cadastre strategy adapted to the particularities of each Municipality, including:

(a) activity planning;

(b) municipal capacity-building, including workshops and in-service training, distance training, and ex-post evaluation;

(c) graphic and alphanumeric data collection, including geodesic control and cadastre cartography, coding and numbering, demarcation and census taking, and data processing; and

(d) unified cadastre code allocation, including publication of cadastre information and registry-cadastre linkage.

4. Supervision of capacity-building activities by COFOPRI.

Part C: Registry Services Provision

1. Real Property Registry Information Management:

Provision of technical services and training to support SUNARP's national coverage under an efficient registration model, including:

(a) revision of data models for SUNARP, comprising analysis and definition of the mechanisms for the consolidation, standardization and migration of SUNARP databases; and

(b) development and implementation of a web-based service platform for the new SUNARP data model.

2. Real Property Demarcation:

(a) Modernization and densification of the Borrower's geodesic network as a proper framework for data validation of cadastral surveys, through the operation and maintenance of a network of permanent monitoring stations.

(b) Capacity-building of the national cadastre system through the provision of training to the professional and technical staff of the member institutions of the system on the principles and modalities for the implementation of the National Integrated Cadastre System Law.

Part D: Formalization Benefits Dissemination

1. Registry Culture Benefits:

Development and implementation of innovative public education campaigns in the area of registry culture, by revising and expanding current COFOPRI and SUNARP programs to inform the Borrower's population about registry issues.

2. Credit Culture Benefits:

(a) Development and implementation of innovative public education campaigns in the area of credit culture, by revising and expanding current COFOPRI programs to promote a credit culture with an innovative approach that brings together financial institutions and Micro-enterprises.

(b) Development of COFOPRI's positive information bureau (*Central de Información Positiva -CIP-*), as an instrument for the promotion of small investment and credit programs, and commercial and productive opportunity links, centered on specific financial products and services in formalized areas.

3. Development of a Formal Real Property Rights Market, through the development and implementation of a real estate exchange, as a database that will contain information on supply and demand of properties in recently formalized areas to be accessed massively through the internet.

4. Information about Real Property Rights Respect Benefits, through the development and implementation of innovative public education campaigns in the area of property rights culture, through promotion activities for real property rights respect.

Part E: Project Management, Monitoring and Evaluation

1. Carrying out of standard Project coordination activities.
2. Carrying out of specific monitoring and evaluation activities, such as:
 - (a) assessments of the transparency and accountability framework of COFOPRI and SUNARP; and
 - (b) evaluation of socio-economic impact of the Project.

* * *

The Project is expected to be completed by June 30, 2011

SCHEDULE 3

Procurement

Section I. General

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

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

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

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

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

B. Other Procurement Procedures

1. National Competitive Bidding. Goods and services (other than Consultant's Services) estimated to cost less than \$250,000 but more than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods estimated to cost \$50,000 equivalent or less per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

Section III. Particular Methods of Procurement of Consultants' Services

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

B. Other Procedures

1. Quality-based Selection. Services estimated to cost less than \$100,000 equivalent for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

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

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

4. Fixed-Budget Selection. Services for assignments estimated to cost less than \$100,000 equivalent per contract, which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines, may be procured under contracts awarded on the basis of Fixed-Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

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

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section V. Special Provisions

A. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Guidelines, the following provisions shall govern all procurement of goods under Part B.1 of Section II of this Schedule:

1. No reference value shall be required for publication in the bidding documents.
2. Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
3. The Borrower, through COFOPRI, shall utilize standard bidding documents satisfactory to the Bank.
4. Foreign bidders shall not be required to legalize their bids or any documentation related to such bids with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participate in the bidding process.

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

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
2. No reference value shall be required for publication in the proposal documents.

3. 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 participate in the selection process.