

The World Bank

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

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March 5, 2007

Mr. Agustín Haya de la Torre de la Rosa
Executive Director
Peruvian Agency for International Cooperation
Av. José Pardo 261, Miraflores
Lima
PERU

Arq. Juan Valdivia Romero
Minister of Energy and Mines
Ministry of Energy and Mines
Av. Las Artes 260, San Borja
Lima
PERU

**Re: PERU: Multi Donor Trust Fund Grant for the Peru Extractive Industries
Transparency Initiative
Grant No. TF057870**

Dear Sirs,

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank), acting as administrator of grant funds provided under the Multi Donor Trust Fund for the Extractive Industry Transparency Initiative (EITI), to indicate the Bank's agreement to make to the Republic of Peru (the Recipient), through the Ministry of Energy and Mines (MEM), a grant in an amount not exceeding three hundred thousand U.S. dollars (US\$300,000) (the Grant).

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

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


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



Very truly yours,

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**



By 
Marcelo M. Giugale
Director
Bolivia, Ecuador, Peru and Venezuela
Latin America and the Caribbean Region

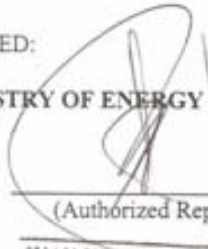
AGREED:

REPUBLIC OF PERU

By: 
(Authorized Representative)
Name: AGUSTIN HAYA DE LA TORRE
Director Ejecutivo
Agencia Peruana de Cooperación Internacional
Title: _____
Date: _____

AGREED:

MINISTRY OF ENERGY AND MINES

By: 
(Authorized Representative)
Name: JUAN VALDIVIA ROMERO
Ministro de Energía y Minas
Title: 17 JUL 2007
Date: _____

Purpose, Terms, and Conditions of the Grant

1. Purpose and Activities

1.1. The purpose of the Grant is to support the Recipient in the implementation of the EITI, adopted by the Recipient through Executive Decree No. 027-2006-EM, published on May 12, 2006. The EITI is aimed at, *inter alia*: (a) increasing the transparency of extractive industry payments and revenues; (b) the setting up of an EITI National Committee; and (c) the implementation of an action plan (the Peru EITI Action Plan) to establish mechanisms that ensure total transparency in the transfer of payments of the extractive industries (i.e. oil, gas and mining) to the Recipient, as well as its subsequent transfer to the relevant Recipient's governmental bodies at the central, regional and local levels.



1.2. The activities (the Activities) for which the Grant is given are as follows:



(a) Technical Advice

Provision of technical assistance for: (i) the implementation of the Peru EITI Action Plan including local and international consultants to examine the oil, natural gas and mining activities and related payments and revenues, to determine appropriate reporting templates; (ii) the preparation of EITI reports both at the Recipient's federal and sub-national levels comprising the conciliation between the payments made by oil, gas and mining operators, and the corresponding Recipient's federal and sub-national government accounts; (iii) the preparation of a strategy for the dissemination of the EITI report; and (iv) the preparation of plans and projects that will assist the Recipient's sub-national governments make a better use of the revenues obtained from petroleum and mining operations.



(b) Capacity Building

Capacity building, including: (i) capacity building of government executives and agencies related to extractive industry revenue transparency, oversight and management, including *inter alia*, MEM and the Recipient's Ministry of Economy and Finance (MEF); (ii) capacity building of civil society in extractive industry payment and revenue monitoring; and (iii) facilitation of related local and international training.



(c) Awareness Raising and Communication

Awareness raising and development of a communication strategy, including: (i) publication and dissemination of EITI reports and information material; (ii) facilitation of civil society engagement in the EITI, namely, the carrying out of workshops, road-shows, and interactive sessions; and (iii) facilitation and carrying out of other EITI information dissemination and coordination activities, including the opening of public information centers, development of websites, presentations at national and international events, as well as implementing other components of the EITI communication strategy.

2. Implementation Generally

The Recipient, through MEM and pursuant to the agreements executed by the EITI National Committee, shall:

- (a) carry out the Activities with due diligence and efficiency in form and substance satisfactory to the Bank;
- (b) promptly provide the funds, facilities, services and other resources required for that purpose;
- (c) furnish all information covering the Activities and the use of the proceeds of the Grant as the Bank shall reasonably request;
- (d) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about June 30 and December 31 of each year during the execution of the Project, commencing on June 29, 2007, a report integrating the results of the monitoring and evaluation of the Activities performed and the progress achieved in carrying out the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project;
- (e) review with the Bank by July 31 and January 31 of each year during the execution of the Project, commencing on July 31, 2007, or such later date as the Bank shall establish, the reports referred to in paragraph (d) of this Section, as the case may be;
- (f) thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said reviews and the Bank's view on the matter;
- (g) take all necessary measures required to enable the Bank to visit the territory of the Recipient for purposes related to the Grant; and
- (h) cause all goods and services financed out of the proceeds of the Grant to be used exclusively for the purposes of the Grant.

Without limitation on the foregoing, the Recipient shall, if the Bank shall so request, prepare and furnish to the Bank promptly upon completion of the Activities a report, in form and substance satisfactory to the Bank, on the results and impact of the Activities.

3. Procurement

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

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

4. Withdrawal of Grant Proceeds

4.1. The amount of the Grant shall be credited to an account opened by the Bank on its books in the name of the Recipient (the Grant Account), and may be withdrawn therefrom by the Recipient in accordance with the provisions of this Section 4, for expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant.

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

<u>Category</u>	<u>Amount of the Grant Allocated (expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Consultants' services and Audits	200,000	100%
(2) Training and Workshops	50,000	100%
(3) Operating Costs	50,000	100%
TOTAL	<u>300,000</u>	

For the purposes of this paragraph, the terms:

(a) "Training and Workshops" means the reasonable cost of: (i) training materials and rental of training facilities and equipment; (ii) tuition fees, travel, accommodation and *per diem* of trainers and trainees; and (iii) any other expenses related to training (including study tours and workshops) to be carried out under the Project; and

(b) "Operating Costs" means the incremental expenditures incurred on account of Grant implementation for the production and printing of the Peru EITI Report and the information campaign, including office furniture and supplies, publication costs, materials and equipment, vehicle operation and maintenance costs, communication and insurance costs, rental expenses and office maintenance costs, excluding salaries of officials of the Recipient's civil service.

4.3. Notwithstanding the provisions of paragraph 4.2 above:

(a) no withdrawals from the Grant Account shall be made: (i) for payments made for expenditures prior to the date of signature of this Letter Agreement by the Bank; (ii) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in or services supplied from such territories; or (iii) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the Bank's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations;

(b) no withdrawals from the Grant Account shall be made after September 28, 2007 or such later date that the Bank shall establish by notice to the Recipient (the Closing Date). However, withdrawals may be made after the Closing Date for expenditures incurred prior to the Closing Date



if the corresponding withdrawal application is received by the Bank within four months after the Closing Date, after which time any amount of the Grant remaining unwithdrawn from the Grant Account shall be canceled; and

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

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

4.5. To facilitate the carrying out of the Activities, the Recipient may open and maintain a special deposit account (the Designated Account) in U.S. Dollars in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Designated Account shall be made in accordance with the provisions of Attachment II to this Annex.

4.6. The Bank may require that withdrawals from the Grant Account be made on the basis of statements of expenditure for expenditures for: (a) services of consulting firms costing less than the equivalent of US\$100,000; (b) services of individual consultants costing less than the equivalent of US\$50,000; and (c) Training and Workshops, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

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

5. Accounts and Audits

5.1. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Activities.

(b) The Recipient shall: (i) commencing with the fiscal year in which the grant becomes effective to and including the fiscal year in which the last withdrawal from the Grant Account is made, have the financial statements referred to in subparagraph (a) above for each such fiscal year or



other period agreed to by the Bank, audited, in accordance with consistently applied auditing standards, acceptable to the Bank, by independent auditors acceptable to the Bank; (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by the Bank: (A) certified copies of the financial statements referred to in subparagraph (a) above for such year or such other period agreed to by the Bank, as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank shall have reasonably requested.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall: (i) retain, until at least one year after the Bank has received the audit report for or covering the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures; (ii) enable the Bank's representatives to examine such records; and (iii) ensure that such statements of expenditure are included in the audit for each fiscal year, or other period agreed to by the Bank, referred to in subparagraph (b) above.

6. Suspension and Cancellation

6.1. The Bank may at any time, by notice to the Recipient, suspend the right of the Recipient to make further withdrawals from the Grant Account if any of the following events has occurred and is continuing: (a) funds withdrawn shall not have been used for the purpose agreed between the Recipient and the Bank; (b) the Activities shall not have been carried out in accordance with the standards or methods agreed between the Recipient and the Bank; (c) the Recipient has failed to comply with any of the obligations herein specified; or (d) the right of the Recipient, or any other entity to which the Bank has made a loan with the guarantee of the Recipient, to make withdrawals under any loan agreement with the Bank or any development credit agreement with the International Development Association shall have been suspended.

6.2. The Bank may, by notice to the Recipient, terminate the right of the Recipient to make further withdrawals from the Grant Account and shall cancel any amount of the Grant remaining unwithdrawn: (a) at any time after withdrawals from the Grant Account shall have been suspended pursuant to the provisions of paragraph 6.1 above; or (b) if the Recipient shall have failed to take action, satisfactory to the Bank, regarding the implementation of the Activities within six months after the notification by Bank to the Recipient of the approval of the Grant.



Procurement

Section I. General

A. All goods and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I (excluding paragraph 1.16) of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004 ("Procurement Guidelines"), in the case of goods; and

(ii) Sections I (excluding paragraph 1.24) and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the World Bank in May 2004 ("Consultant Guidelines") in the case of consultants' services.

B. The capitalized terms used below in this Attachment 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 in the Consultant Guidelines as the case may be.

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

Goods and services shall be procured under contract awarded on the basis of Shopping.

Section III. Particular Methods of Procurement of Consultants' Services

A. Except as otherwise provided in item B below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

B. The following methods may be used for the procurement of consultants' services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (i) Quality-based Selection; (ii) Selection under a Fixed Budget; (iii) Least Cost Selection; (iv) Selection based on Consultants' Qualifications; (v) Single-source Selection; (vi) Selection of Individual Consultants; and (vii) Sole Source Procedures for the Selection of Individual Consultants.

Section IV. Review by the Bank of Procurement Decisions

Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (i) the first contract to be awarded in accordance with each procurement method; and (ii) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$25,000 or more. All other contracts shall be subject to Post Review by the World Bank.



Attachment II

Designated Account

1. For the purposes of this Attachment:

(a) the term "eligible categories" means the categories set forth in paragraph 4.2 of the Annex to this Letter Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Activities and to be financed out of the proceeds of the Grant; and

(c) the term "Authorized Allocation" means the amount of \$60,000 U.S. Dollars to be withdrawn from the Grant Account and deposited in the Designated Account pursuant to paragraph 3 (a) of this Attachment II.

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



3. After the Bank has received evidence satisfactory to it that the Designated Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Designated Account shall be made as follows:

(a) The Recipient shall furnish to the Bank a request or requests for a deposit into the Designated Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Designated Account such amount or amounts as the Recipient shall have requested.



(b) (i) For replenishment of the Designated Account, the Recipient shall furnish to the Bank requests for deposits into the Designated Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Attachment for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Designated Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Designated Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Grant Account under the eligible categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Designated Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Attachment, the Bank shall not be required to make further deposits into the Designated Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account;

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

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

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Designated Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Designated Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Attachment; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Designated Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Designated Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in the Designated Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.