

PERU
Health Reform Program - Second Phase
MINUTES OF NEGOTIATIONS

December 15, 2008

1. Negotiations between the Republic of Peru (the Borrower) and the International Bank for Reconstruction and Development (the Bank) for a US\$15 million loan to finance the Health Reform Program - Second Phase were held in Lima, Peru on December 15, 2008.
2. The Peruvian delegation consisted of the following representatives from the Ministry of Economy and Finance (MEF) and from the PARSALUD PCU: Betty Sotelo (Directora General de la Dirección Nacional del Endeudamiento Público), Javier Chocano (Jefe de la Oficina General de Asesoría Jurídica), Carmen Silva (Asesora Legal), Marco Félix (Sub Director de Gestión de la DNEP), Liliana Li (Especialista Sectorial DGPM-MEF), Nereyda Renteria, Paulina Giusti (Titular de la Unidad Ejecutora PARSALUD), Carlos Riese (PARSALUD), Walter Vigo (PARSALUD).
3. The Bank delegation consisted of Fernando Lavadenz (Task Manager), Fabiola Altimari (Senior Counsel), Nelson Gutierrez (Operations Officer), Francisco Rodriguez (Procurement Specialist), Nelly Ikeda (Financial Management Specialist) and Claudia Sanchez (JPA).
4. The draft loan agreement dated December 11, 2008, was reviewed. The revised version of the Loan Agreement is attached as Annex 1 to these Minutes, and reflects agreements reached by the Bank and the Borrower's delegation. These Minutes are intended to set forth certain important understandings reached during the negotiations and to identify the principal changes agreed in the above mentioned draft. Such changes and understandings are indicated in the paragraphs below.
5. **Loan Financial Terms Choice.** The Borrower delegation selected the option of a IBRD Flexible Loan with a fixed spread with tailored repayment dates resulting in a Grace Period of 10.5 years and a Final Maturity of 25 years.

The delegation chose a customized maturity structure and to pay the front-end fee out of their own resources as described in the attached Financial Terms of IBRD Loans, Worksheet for Loan Choices (Annex 2 to these minutes). The Borrower's representatives chose to keep all conversions open. The above loan was chosen because, given Peru's high debt repayment burden, this type of loan offers the Borrower the greatest possible grace period and it adjusts to the Borrower's external debt repayment profile.

The closing date will be January 31, 2015. The execution of the Project is estimated to be five years.

6. With respect to Financial Management, the Bank and the Borrower discussed and agreed on certain actions to be taken during the first year of implementation of the project so as to strengthen the financial management arrangements for the Project, in particular, the integration of the financial management system of the project to support project accounting and financial reporting. As such, the Loan Agreement includes this as part of the implementation arrangements for the project in Schedule 2. To this end, the Borrower has committed to prepare and present the Bank with a detailed Action Plan on the activities to be conducted to achieve this goal by January 31, 2009.



7. The detailed Action Plan will consider the following aspects: (i) identify which of the current system tools that PARSALUD has currently in place will be strengthened; (ii) determine the hardware and platform to be used; (iii) prepare and develop consultant TORs for the work to be done to define the system in accordance with business need; (iv) determine the timing for design, testing and implementation of the system including the different modules develop to record accounting transactions, payments, preparation of financial statements, and preparation of statement of expenses (SOEs), considering all source of funds.
8. The Borrower submitted to the Bank the signed *Convenios de Adhesion* for the 9 selected regions under the Project.
9. The Bank and the Borrower agreed that loan proceeds will be used to finance a portion of approximately 50% of all contracts under the Project, therefore the Bank procurement rules will apply to these contracts to be detailed in the Procurement Plan.
10. Considering that this is a co-financed Project, it was agreed that the Steering Committee referred to in Section 1.A(1) of Schedule 2 to the Loan Agreement, shall be the same committee to be established under the Program (co-financed by the IDB).
11. **Disbursement Arrangements.** The Disbursement Letter was discussed and agreed with the Borrower and it is included as Annex 3 to these minutes. The amount of the ceiling of the Designated Account can be revised at any time during project execution without requiring a legal amendment to the Loan Agreement. In order to revise the Disbursement Letter, the Borrower will need to send a request to the task team leader of the project with a copy to the Bank's loan department, formalizing the request and providing the justification for the change.
12. It was agreed to have a four month grace period after Loan Closing Date and the Bank clarified that the Borrower can continue to submit applications for withdrawal and supporting documentation for eligible expenditures incurred prior to the Closing Date. The only exception being the payment to the auditors to complete the final financial audit.
13. In the case that the payments to the auditors needs to be made during or after the four month grace period, the Borrower should notify the Bank and request the required amount of the payments be deposited in an escrow account. It was further clarified that the contract with the auditor, regardless of when payment will be made, needs to be signed prior to the Closing Date. It was discussed and agreed that the reporting of eligible expenditures paid from the Designated Account would be done on a quarterly basis, however, this does not prevent the project from reporting expenditures on a more frequent basis.
14. **Project Appraisal Document (PAD).** The Borrower received the PAD dated December 15, 2008, included as Annex 4 to these minutes, and agreed on the document contents.
15. **Disclosure of the PAD.** The Borrower provided its no objection to making the PAD available to the public after Board approval.

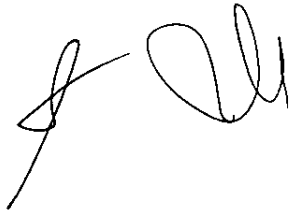


16. Based on the above, negotiations for the proposed loan were completed on December 15, 2008.

Next steps:

- The Bank informed the Borrower that the expected date for Bank Board of Directors approval is February 17, 2009.

- It was agreed that the Borrower shall submit as soon as possible the delegation to the designated Borrower's official to sign the Statutory Committee Report (Statcom). Without the signed Statcom, the Bank shall not be able to distribute the Project documents to the Bank's Board of Directors.

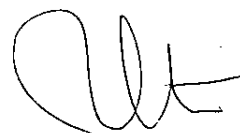


FOR THE BORROWER:



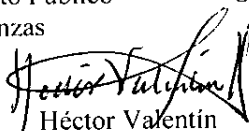
Betty Sotelo
Directora General

Dirección Nacional del Endeudamiento Público
Ministerio de Economía y Finanzas



Paulina Giusti
Titular

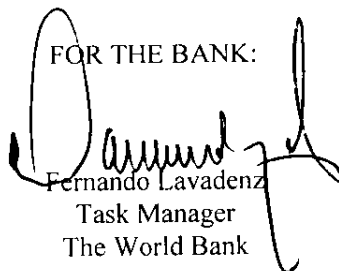
Unidad Ejecutora PARSALUD
Ministerio de Salud



Héctor Valentín

Director General de Programación Multianual del Sector Público
Ministerio de Economía y Finanzas

FOR THE BANK:



Fernando Lavadenza
Task Manager
The World Bank

Annexes:

1. Negotiated Loan Agreement
2. Worksheet for Loan Choices
3. Disbursement Letter
4. Program Document dated December 15, 2008