Development Credit Agreement

(Programmatic Social Sector Structural Adjustment Credit)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2004
CREDIT NUMBER 3942-BO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 30, 2004 between the REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter, dated January 8, 2004 (the Development Policy Letter), describing: (i) its macroeconomic framework; and (ii) a program of actions, objectives and policies for social reform, covering social protection, public health and education (the Program), which Program consists of actions that have already been taken as described in Schedule 2 to this Agreement (the First Phase of the Program), and actions and policies that the Borrower intends to take and adopt in the near future, declaring the Borrower’s commitment to the execution of the Program and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit, as provided for in Article II of this Agreement (the Credit) as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985, (as amended through October 6, 1999) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

“Project” means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

(b) Section 4.01 is modified to read:
“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;

(b) “FUNDASAB” means Fundación de Apoyo a la Sostenibilidad en Saneamiento Básico, the Borrower’s foundation to support sustainability of basic water sanitation;

(c) “Law 2042” means the Borrower’s law dated December 21, 1999, which established the legal framework for the Borrower’s national administrative budget;

(d) “Law 2649” means the Borrower’s law dated April 8, 2004, which established the legal framework for the Borrower’s water and sanitation financing mechanisms;
(e) “Millennium Development Goals” means a set of goals directed at reducing poverty in all its forms by year 2015 as agreed by the United Nations members during the United Nations Millennium summit in September 2000; and

(f) “PAI” means Programa Ampliado de Inmunización, the Borrower’s expanded program of immunizations:

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventeen million two hundred thousand Special Drawing Rights (SDR17,200,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its Central Bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.
(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15, commencing on August 15, 2014, and ending on February 15, 2024. Each installment to and including the installment payable on February 15, 2024 shall be five percent (5%) of such principal amount.

(b) Whenever: (i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the
Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association’s request, the Borrower shall:
(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association’s request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Events of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified: (a) the Borrower’s macroeconomic policy framework has become inconsistent with the objectives of the Program; and (b) an action has been taken or a policy has been adopted to reverse any action or policy under the Program (including any action or policy listed in Schedule 2 to this Agreement) in a manner that would, in the opinion of the Association, after consultation with the Borrower, adversely affect the achievement of the objectives of the Program.

ARTICLE V

Termination

Section 5.01. The date September 27, 2004, is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representatives of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:
For the Borrower:

Ministerio de Hacienda
Palacio de Comunicaciones, Piso 19
Av. Mariscal Santa Cruz, esq. Calle Oruro s/n
La Paz, Bolivia

Cable address:
FINANZA
La Paz, Bolivia

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:
INTBAFRAD 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
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 District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF BOLIVIA

By /s/ Mr. Jaime Aparicio
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mr. Marcelo Giugale
Acting Regional Vice President
Latin America and the Caribbean Region
SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Loan shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another loan or a credit;

3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

<table>
<thead>
<tr>
<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
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</thead>
<tbody>
<tr>
<td>112</td>
<td>-</td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td>-</td>
<td>Tobacco, unmanufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td>-</td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td>-</td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
</tbody>
</table>
718  718.7  Nuclear reactors and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

728  728.43  Tobacco processing machinery

897  897.3  Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)

971  -  Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit and/or the Loan during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.
SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The Borrower has issued a Decreto Supremo which regulates Law 2042 and provides that 5% of the resources from its social security administration budget is allocated to fund disease prevention activities, particularly for PAI.

2. The Borrower has issued a multi-annual operational plan (covering years from 2004 to 2008) which incorporates as part of its objectives the achievement of the Millennium Development Goals with respect to the education sector.

3. The Borrower has: (a) enacted Law 2649; and (b) issued a Decreto Supremo which establishes a new financing policy and an institutional modernization program for the water and sanitation sector (including resource allocation mechanisms to public and mixed service providers).

4. The Borrower has issued a Decreto Supremo which mandates the creation of FUNDASAB.

5. The Borrower has created a social safety net which incorporates the following: (a) mechanisms to coordinate existing social programs to avoid overlapping; (b) a coordination unit formally established under the direction of the Borrower’s unique directorate of funds; (c) operating guidelines containing criteria to: (i) improve targeting according to unemployment and poverty incidence; and (ii) select eligible projects which are not part of the routine maintenance obligations of the Borrower’s public entities; and (d) a design for a single beneficiary registry to identify targeted populations and properly allocate resources.

6. The Borrower has taken the following actions as part of the implementation of a participative evaluation system on the quality and adequacy of the Borrower’s health, education and water and sanitation programs: (a) presented to the civil society a proposal of mechanisms and instruments for the follow-up and participative evaluation of the achievement of the Millennium Development Goals; and (b) signed an inter-ministerial agreement (between the Borrower’s ministries in charge of health, education and water and sanitation) to develop the proposal referred to in subparagraph (a) above.