

CONFORMED COPY

CREDIT NUMBER 4378-BO

Financing Agreement

**(Second Participatory Rural Investment Project
Proyecto De Desarrollo Concurrente Regional- PDCR)**

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 11, 2008

CREDIT NUMBER 4378-BO

FINANCING AGREEMENT

AGREEMENT dated February 11, 2008, entered into between REPUBLIC OF BOLIVIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twelve million eight hundred thousand Special Drawing Rights (SDR 12,800,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MP and VMD, and with the assistance of FPS and the Eligible Municipalities and *Prefecturas*, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
- (a) FPS or the Eligible Municipalities or the *Prefecturas* or the AMDES or the *Mancomunidades*, shall have failed, in the opinion of the Association, to perform any of their obligations under the Subsidiary Agreement or the Inter-Institutional Agreements, or the *Prefectura* Agreement, or the TOU Agreement, as the case may be.
 - (b) The Procurement Supreme Decree has been amended, suspended, abrogated, repealed or waived so as to render its Article 42 (a) ineffective, in the opinion of the Association, and no provision analogous to such Article 42 (a) has been adopted to replace said provision.
- 4.02. The Co-financing Deadline for the effectiveness of the Co-financing Agreements is the Effective Date.
- 4.03. The Additional Event of Acceleration consists of the following, namely, that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Agreement has been executed on behalf of the Recipient and FPS.
 - (b) The Operational Manual has been adopted in a manner satisfactory to the Association.
 - (c) The Project Implementation Plan has been adopted in a manner satisfactory to the Association.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and FPS and is legally binding upon the Recipient and the FPS in accordance with its terms.
- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement, but in no case later than the eighteen (18) months after the Association's approval of the Credit which expire on June 22, 2009.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Development Planning.
- 6.02. The Recipient's Address is:

Ministerio de Planificación del Desarrollo
Viceministerio de Inversión Pública y Financiamiento Externo (VIPFE)
Palacio de Comunicaciones, Piso 11
La Paz, Bolivia

Facsimile:

011-591-2-231-7408 (with a copy to: 011-591-2-239-2891)

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF BOLIVIA

By /s/ Mario Gustavo Guzmán Saldaña

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ C. Felipe Jaramillo

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to pilot the consolidation of institutional arrangements among the Recipient's national government, *Prefecturas*, Municipalities and civil society for sustainable management of subnational public investments in selected sectors, with an emphasis on territorial development.

The Project consists of the following parts:

Part 1. Institutional Strengthening

- 1.1. Provision of technical assistance and training to *Prefecturas*, Eligible Municipalities and *Mancomunidades* to formulate: (a) the rules for subnational cofinancing; and (b) territorial and sector development plans.
- 1.2. Provision of technical assistance and training to *Prefecturas*, the Eligible Municipalities and *Mancomunidades* for the implementation and evaluation of the plans referred to in paragraph 1.1 (b) above.
- 1.3. Provision of technical assistance and training to *Prefecturas*, the Eligible Municipalities and *Mancomunidades* on pre-investment and investment contract management, including workshops with local stakeholders to disseminate good practices.
- 1.4. Provision of technical assistance and training to the Eligible Municipalities and *Prefecturas*, to formulate and implement operation and maintenance plans for municipal infrastructure and communities' productive investments.
- 1.5. Carrying out of sector studies, implementation of the FPS Action Plan and financing of audits for FPS.

Part 2. Productive Investments

- 2.1. Carrying out of pre-investment studies related to potential Investment Subprojects.
- 2.2. Carrying out of Investment Subprojects.

Part 3. Project Management

- 3.1. (a) Provision of technical assistance and goods to VMD and the AMDES for the execution of the Project; and (b) financing of operational costs for VMD and the AMDES.

- 3.2. Design and implementation of a Project communications strategy, including audio-visual and print media.
- 3.3. Provision of technical assistance for the establishment of a monitoring and evaluation system for the Project.
- 3.4. Carrying out of: (a) technical studies including social and institutional assessments to incorporate new Municipalities in the Project Area; and (b) carrying out of independent financial and procurement audits for the Project.
- 3.5. Provision of operating costs to FPS for the implementation of the Investment Subprojects.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. **Subsidiary Agreement and Implementation Agreements**

1. To facilitate the carrying out of the Project, the Recipient shall make part of the proceeds of the Financing available to FPS through a subsidiary agreement between the Recipient and FPS, under terms satisfactory to the Association (“Subsidiary Agreement”), including, *inter alia*, FPS’s obligation to provide all the necessary information and documentation to VMD related to FPS’s responsibilities under the Project (including, but not limited to, the information required for compliance with Section III.D of Schedule 2 to this Agreement).
2. The Recipient shall maintain all of the necessary conditions for FPS to comply with its obligations under the Subsidiary Agreement.
3. Without limitation to the provisions of paragraph 1 above, the Recipient, through VMD, shall enter into an agreement with each of the *Prefecturas* (“*Prefectura Agreement*”), under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual, with respect to the roles and responsibilities of the *Prefecturas* for the implementation of the Project.
4. Without limitation to the provisions of paragraphs 1 and 3 above, the Recipient, through VMD, shall enter into an agreement with each of the Eligible Municipalities and/or *Mancomunidades* (“*Inter-Institutional Agreement*”), under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual, with respect to the roles and responsibilities of the Eligible Municipalities and *Mancomunidades* for the implementation of the Project.
5. Without limitation to the provisions of paragraphs 1, 3 and 4 above, the Recipient, through VMD, shall enter into an agreement with the AMDES (“*TOU Agreement*”), under terms and conditions satisfactory to the Association, including those set forth in the Operational Manual, with respect to the roles and responsibilities of the AMDES for the implementation of the Project.
6. The Recipient shall exercise its rights under the Subsidiary Agreement, the *Prefectura Agreements*, the *Inter-Institutional Agreements* and the *TOU Agreements*, and cause FPS to exercise its rights under the *Subgrant Agreements*, in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not, or shall cause FPS not to, assign, amend,

abrogate, waive or fail to enforce the Subsidiary Agreement, the *Prefectura* Agreements, the Inter-Institutional Agreements, the TOU Agreement and the Subgrant Agreements or any of their provisions.

7. In the case of a conflict between the provisions of the Subsidiary Agreement, the *Prefecturas* Agreements, the Inter-Institutional Agreements, the TOU Agreements or the Subgrant Agreements and the provisions of this Agreement, the Recipient will ensure that the provisions of this Agreement will prevail.

B. Institutional and Other Arrangements

1. The Recipient shall, with the assistance of FPS, carry out the Project, or cause the Project to be carried out, in accordance with the provisions of:
 - (a) this Agreement;
 - (b) the Subsidiary Agreement;
 - (c) the *Prefecturas* Agreements;
 - (d) the Inter-Institutional Agreements;
 - (e) the Subgrant Agreements;
 - (f) the TOU Agreements;
 - (g) the Operational Manual; and
 - (h) the Project Implementation Plan.
2. At all times during the execution of the Project, VMD shall maintain a qualified team responsible for the implementation of the Project (“NOU”), with qualifications, functions and responsibilities as set forth in the Operational Manual. The NOU will have the following responsibilities:
 - (a) overall planning, coordination and monitoring of Project activities; and
 - (b) the updating of the Procurement Plan and the elaboration of the annual implementation plan.
3. At all times during the execution of the Project, the Recipient shall cause FPS to maintain qualified staff responsible for the implementation of Part 2 of the Project. The Association shall review the selection process and provide the no-objection for the hiring of the staff for the following FPS units: (a) control and monitoring; (b) environmental; and (c) procurement. The above-mentioned staff

shall carry out quality control activities, coordination, monitoring and oversight of Part 2 of the Project.

C. Operational Manual

1. The Recipient, through VMD, shall carry out the Project, or cause the Project to be carried out, in accordance with the terms of a manual satisfactory to the Association (the Operational Manual). Except as the Association shall otherwise agree, the Recipient shall not amend, waive or fail to enforce the Operational Manual or any provision thereof. In case of any conflict between the terms of this Agreement and those of the Operational Manual, the terms of this Agreement shall prevail.
2. The Operational Manual shall include provisions detailing procedures and guidelines for the carrying out of the Project, including, *inter alia*:
 - (a) the procedures for the preparation, review and approval of reports pursuant to the Project's financial management arrangements;
 - (b) procurement and contracting procedures consistent with Schedule 2 to this Agreement, to be applicable to the contracts for the works, goods, and services required for the Project and to be financed out of the proceeds of the Credit;
 - (c) Project impact and implementation indicators and the procedures for the monitoring and evaluation of the Project, including for compliance with Section II of Schedule 2 to this Agreement;
 - (d) the procedures for the Recipient's preparation, review and approval of Credit proceeds withdrawal applications to the Association, in conformity with the instructions that the Association may give to the Recipient in this respect;
 - (e) the eligibility criteria for the selection of the Eligible Municipalities;
 - (f) the eligibility criteria for the Investment Subprojects;
 - (g) the Environmental Management Framework and guidelines for the carrying out of Investment Subprojects and the mechanisms to address the culturally specific needs of the Recipient's indigenous peoples groups to ensure that the benefits of the Project are culturally appropriate and that there is broad community support for the Project;
 - (h) guidelines for human resources management under the Project;

- (i) the communications strategy for the Project; and
- (j) the identification, quantification and responses to risk management under the Project.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Terms and Conditions for Subgrants

1. Each Subgrant will finance up to 40% of the cost of each pre-investment study under Part 2.1 of the Project or each Investment Subproject under Part 2.2 of the Project.
2. Each Subgrant shall be made pursuant to an agreement, to be entered into by FPS and one or more of the Eligible Municipality and *Prefecturas*, whereby FPS shall obtain rights adequate to protect the interests of the Recipient and the Association, including the right to:
 - (a) require the Eligible Municipality and *Prefectura* to carry out the respective pre-investment study or carry out (or cause to be carried out by Communities) the respective Investment Subproject with due diligence and efficiency and in accordance with sound administrative, technical, engineering, financial, social, ecological and environmental standards and to provide the necessary information to FPS to enable FPS to comply with its obligations under the Subsidiary Agreement;
 - (b) require that: (i) the works, goods and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Section III below; and (ii) such works, goods and services shall be used exclusively in the carrying out of the respective pre-investment study or Investment Subproject;
 - (c) inspect the goods and works in the respective Investment Subproject and any relevant records and documents;
 - (d) require the Eligible Municipality and the *Prefectura* to finance at least 60% of the total cost of the pre-investment study or Investment Subproject, such financing to be made either: (i) in cash; (ii) in kind; (iii) through the provision of labor; or (iv) by means of any combination thereof;

- (e) require the Eligible Municipality and the *Prefectura* to: (i) prepare and furnish to FPS an action plan, satisfactory to the Association, to mitigate any potential negative environmental impact resulting from the carrying out of the corresponding Investment Subproject, all in accordance with environmental criteria acceptable to the Association as set forth in the Operational Manual; and (ii) carry out the plan referred to in (i) herein in accordance with its terms; and
- (f) suspend or terminate the right of the Eligible Municipality and the *Prefectura* to benefit from the proceeds of the Financing upon failure by such Eligible Municipality and *Prefectura* to comply with any of its obligations under the corresponding Subgrant Agreement.

F. Other Covenants

1. Not later than March 31, 2008, FPS shall have completed the modifications of the first phase of SAP, agreed with the Association pursuant to the FPS Action Plan.
2. Not later than December 31, 2008, FPS shall have completed all SAP modifications agreed with the Association, pursuant to the FPS Action Plan.
3. Not later than April 30, 2008, FPS shall have established its public web page with the register of companies, supervisors, and contracts awarded by FPS and the Municipalities since January 31, 2008.
4. The Recipient shall cause FPS to carry out the FPS Action Plan.
5. The Recipient and the Association shall assess semiannually, FPS institutional performance to confirm compliance with the FPS Action Plan.
6. The Recipient shall maintain throughout the implementation of the Project, the units referred to in paragraph B.2 of Section IV to this Schedule.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare or cause to be prepared Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than one month after the end of the period covered by such report. The Recipient shall review the most recent Project

Report with the Association during the Association's semi-annual meetings with the Recipient, or on such later dates as the Association may request.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain (or cause to be maintained) a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare (or cause to be prepared) and furnish to the Association not later than 45 days after the end of each calendar quarter, interim un-audited financial reports for each Part of the Project covering the calendar quarter, in form and substance satisfactory to the Association.
3. The Recipient shall, through VMD, and cause FPS to, have the Financial Statements for each part of the project to be audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient for the respective part of the Project, commencing with the earlier of: (a) the fiscal year in which the first withdrawal under the Project Preparation Advance was made; and (b) the fiscal year in which the first withdrawal under this Agreement was made. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-Consultant Services.** All goods, works and non-consultant services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, with the provisions of this Section and with the provisions of Section II of Annex A to this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-Consultant Services.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and non-consultant services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) National Competitive Bidding, subject to the additional provisions set forth in Section I of Annex A to this Schedule 2.
(b) Shopping.
(c) Direct Contracting.
(d) Community Participation in Procurement (in the case of procurement carried out by Communities to whom an Eligible Municipality has entrusted the carrying out of all or part of an Investment Subproject pursuant to Section I.E.2(a) of Schedule 2 to this Agreement).

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Method</u>
(a) Quality-based Selection.
(b) Selection under a Fixed Budget.
(c) Least Cost Selection.
(d) Selection Based on Consultant’s Qualifications.
(e) Single Source Selection.
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants.
(g) Sole Source Procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.
2. Annual Procurement Audits. The Recipient, through MP and VMD, shall or shall cause FSP to:
 - (a) not later than August 31 of each year during the implementation of the Project, beginning on August 31, 2009, contract independent auditors with experience and qualifications satisfactory to the Association, operating under terms of reference satisfactory to the Association, to perform a procurement audit of all the procurement records and documentation for the Project, relating to the Recipient’s previous fiscal year of implementation of the Project, in accordance with procurement auditing principles acceptable to the Association (“Procurement Audit”);
 - (b) not later than December 15 of each year during the implementation of the Project, beginning on December 15, 2009 and continuing for each year thereafter during the implementation of the Project, furnish to the Association the report, in form and substance satisfactory to the Association, on the Procurement Audit completed for the Recipient’s prior fiscal year;

- (c) at all times during the implementation of the Project, furnish to the Association and to the auditors performing a Procurement Audit, such other information concerning the procurement records and documentation for the Project as the Association or the auditors may from time to time reasonably request; and
- (d) not later than January 31 of each year during the implementation of the Project, beginning on January 31, 2010, exchange views with the Association on the results of the Procurement Audit completed for the Recipient’s prior fiscal year and thereafter implement such recommended measures, taking into account the Association’s views on the matter.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<u>Category</u>	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) (a) Goods, Training and consultants services under Parts 1.1, 1.2, 1.3 and 1.4 and of the Project; and	1,850,000	100%
(b) goods, consultants services and Training under Part 1.5 of the Project, including audits	400,000	100%

<u>Category</u>	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(2) (a) Subgrants under Part 2.1 of the Project;	500,000	100% of the cost of services financed by the Subgrants
(b) Subgrants under Part 2.2 of the Project; and	5,700,000	100% of the cost of goods, works and services financed by the Subgrants
(c) consultant services under Part 2.1 of the Project	300,000	100%
(3) (a) Goods, consultants services, Training and Operational Costs under Part 3 of the Project, including audits; and	1,900,000	100%
(b) FPS Operating Costs under Part 3.5 of the Project	1,500,000	8% of the total cost of the Investment Subprojects paid in tranches as set forth in the Operational Manual
(4) Refund of Project Preparation Advance	250,000	Amount payable pursuant to Section 2.07 of the General Conditions
(5) Unallocated	400,000	
TOTAL AMOUNT	12,800,000	

1. For purposes of the table in paragraph 2 above, the terms:
 - (a) “Training” means reasonable expenditures (other than those for consultants’ services) incurred by VMD for the purposes of the Project and directly related to training activities described in the Project, including, *inter alia*, costs related to workshops, seminars, conferences, study tours, training registration fees, facility rentals, and travel costs and *per diems* for VMD, the Eligible Municipalities and FPS civil service officials or employees;
 - (b) “FPS Operating Costs” means reasonable recurrent expenditures (other than those for consultants’ services) incurred by FPS for the purposes of the Project and directly related to the activities described in the Project, including, *inter alia*, salaries of staff, office materials and supplies, operation and maintenance of office equipment, insurance, vehicle and equipment operation, bank charges on the Designated Account, transportation, phone and fax charges, media campaigns and printing of materials; and
 - (c) “Operational Costs” means reasonable recurrent expenditures (other than those for consultants’ services) incurred by VMD and the AMDES for the purposes of the Project and directly related to the activities described in the Project, including, *inter alia*, office materials and supplies, transportation, bank charges on the Designated Account, vehicle and equipment operation and maintenance, phone and fax charges, media campaigns and printing of materials.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawals shall be made for payments made prior to the date of this Agreement.
2. No withdrawals shall be made for payments under Category 2 of the table in paragraph A above, until FPS has established to the satisfaction of the Association: (a) the control and monitoring unit under FPS’s executive office; (b) the environmental unit; and (c) the procurement monitoring unit.
3. The Closing Date is March 16, 2013.
4. The Recipient, through VMD, shall review and adjust annually, or at any other time agreed with the Association, starting on June 30, 2009, the FPS Operating Costs. Such adjustment shall be unnecessary if the Association is satisfied that said review reveals no change in FPS Operating Costs.

**Annex A
to
SCHEDULE 2**

**Additional Provisions Relating to
Particular Methods of Procurement**

Section I. Goods and Works

Without limitation upon the provisions of Schedule 2 to this Agreement or the Procurement Guidelines, the following additional provisions shall apply to all goods and works procured for the Project (pursuant to Section III.A.1 of Schedule 2 to this Agreement) under contracts awarded on the basis of National Competitive Bidding (“NCB Contracts”):

1. A merit point system shall not be used in the pre-qualification of bids.
2. The award of goods and works contracts shall be based exclusively on price and, whenever appropriate, shall also take into account factors similar to those referred to in paragraph 2.51 of the Guidelines, provided, however, that the bid evaluation shall always be based on factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
3. The Recipient shall open all bids at the stipulated time and place in accordance with a procedure satisfactory to the Association.
4. The Recipient shall use a single envelope procedure.
5. Whenever there is a discrepancy between the amounts in figures and in words of a bid, the amounts in words shall govern.
6. Except as the Association shall otherwise agree, the bidding process shall not be declared void if only three (3) bids or less have been submitted unless such bids have been determined not to be responsive.
7. Any standards and technical specifications (quoted in the bidding documents) that are at least substantially equivalent to the national standards and technical specifications shall be acceptable.
8. Foreign bidders shall be allowed to participate.
9. Foreign bidders shall not be required to legalize any documentation related to their bids with Bolivian authorities as a prerequisite for bidding.

10. No margin of preference shall be granted for any particular category of bidders.
11. The auction procedure (*Puja Abierta*) shall not be used.
12. In the event that a bidder whose bid was evaluated as the bid with the lowest evaluated price withdraws its bid, the contract may be awarded to the second lowest responsive evaluated bid.
13. Foreign bidders shall not, as a condition for submitting bids, be required to enter into a joint venture agreement with local bidders.
14. No other procurement rules or regulations of the Recipient's agencies or of any state-owned entity shall apply without the prior review and consent of the Association.

Section II. Selection of Consultant Services

Without limitation upon the provisions of Schedule 2 to this Agreement or the Consultant Guidelines, the following additional provisions shall apply to all consultants' services procured for the Project (pursuant to Section III.A.2 of Schedule 2 to this Agreement):

1. As a condition for participating in the selection process, foreign consultants shall not be required to enter into a joint venture agreement with local consultants, unless the conditions stated in paragraph I.I.2 of the Consultant Guidelines are met.
2. As a condition for participating in the selection process, foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with the Recipient's authorities.
3. Foreign consultants shall not be required to be registered in the Recipient's National Registry of Consultants (*Registro Nacional de Consultoría*).
4. Consultants (firms and individuals) shall not be required to present bid and performance securities as a condition to present proposals and sign a contract.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
Commencing February 15, 2018 to and including August 15, 2027.	1.25%
Commencing February 15, 2028, to and including August 15, 2042.	2.50%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX**Section I. Definitions**

1. “AMDES” means the Recipient’s not-for-profit departmental municipal associations.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Co-financiers” means: (a) the Swiss Confederation; and (b) the Government of the Kingdom of Denmark, referred to in paragraph 10 of the Appendix to the General Conditions.
5. “Co-financing” means an amount of: (a) \$4,500,000; and (b) \$10,900,000 to be provided by the Swiss Confederation and the Government of the Kingdom of Denmark, respectively, to assist in financing the Project.
6. “Co-financing Agreements” means the agreements to be entered into between the Recipient and each of the Co-financiers providing for the Co-financing.
7. “Communities” means any of the Recipient’s communities with legal personality and organized structure which meet the eligibility criteria set forth in the Operational Manual to carry out all or part of an Investment Subproject.
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
9. “Eligible Municipality” means a Municipality (as hereinafter defined) which has met the eligibility criteria set forth in the Operational Manual (as hereinafter defined) to: (a) carry out a pre-investment study under Part 2.1 of the Project; and/or (b) carry out an Investment Subproject (as hereinafter defined) under Part 2.2 of the Project; and/or (c) carry out activities under Part 1 of the Project.
10. “Environmental Management Framework” means *Estudio de Evaluacion de Impacto Ambiental*, a report dated September 2007 and published in VMD’s website on October 26, 2007, which includes the necessary procedures to avoid, minimize or mitigate the potential negative environmental impacts of the Project, including: (a) soil erosion; (b) loss of biodiversity; (c) deforestation; (d) loss;

conversion, degradation of natural habitats; (e) disruption of hydrological dynamics; (f) water pollution; and (g) damage to watersheds.

11. “FPS” means *Fondo Nacional de Inversión Productiva y Social*, the Recipient’s national productive and social investment fund established pursuant to Article 14 of the Recipient’s Supreme Decree No. 25984 of November 16, 2000.
12. “FPS Action Plan” means the plan approved by FPS’ Board of Directors on October 11, 2007.
13. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
14. “Indicators” means the impact and implementation indicators set forth in the Operational Manual.
15. “Inter-Institutional Agreement” means any of the agreements referred to in Section I.A.4 of Schedule 2 to this Agreement, to be entered between VMD and an Eligible Municipality for the carrying out of Part 1 of the Project.
16. “Investment Subproject” means a specific subproject which meets the eligibility criteria set forth in the Operational Manual (hereinafter defined) and consisting, *inter alia*, of: (a) the upgrading and rehabilitation of communal and municipal roads; (b) the construction of vehicular and pedestrian bridges; (c) the construction of lake and river transport infrastructure; (d) the construction of small reservoir and river collectors, irrigation canals and surface water collectors; (e) the carrying out of reforestation and management of community forest areas, basin management and soil control erosion, and protection of productive zones; or (f) the construction of telecommunication and information centers and public infrastructure for tourism promotion and marketing infrastructure. The following activities shall be ineligible for financing under any Investment Subproject: (a) new road construction; (b) transportation works in primary forest and protected areas; (c) construction of water reservoirs higher than 10 meters or which flood more than 100 hectares; (d) irrigation works that feed more than 100 incremental hectares; (e) flood protection or drainage works that affect wetland; (f) works in archeological areas with the exception of minor preservation works linked to a tourism strategy approved by the Recipient’s National Archeological Institute; (g) activities that may induce voluntary or involuntary occupation of forest lands; and (h) activities that may induce voluntary or involuntary resettlement.
17. “*Mancomunidades*” means any of the Recipient’s local municipal associations created under the Recipients Supreme Decree No. 26142, dated August 6, 2001 and pursuant to article 202 of the Recipient’s political constitution and which have met the eligibility criteria set forth in the Operational Manual.

18. “MP” means the Recipient’s Ministry of the Presidency.
19. “Municipality” means a municipal government of an entity with legal personality established pursuant to the Recipient’s Law No. 2028, dated October 28, 1999.
20. “NOU” means the team within VMD (as hereinafter defined) referred to in Section I.B.2 of Schedule 2 to this Agreement.
21. “Operational Manual” means the manual referred to in Section I.C of Schedule 2 to this Agreement.
22. “OTB” means an indigenous community or a rural community or a neighborhood association (*Organizaciones Territoriales de Base*) established in accordance to the Recipient’s Law No. 1551, dated April 20, 1994 and published in the Recipient’s Official Gazette on April 24, 1994.
23. “*Prefectura*” means the departmental representation of the Recipient’s executive branch, as established in the Recipient’s Law No. 1654, dated July 28, 1995 and published in the Recipient’s Official Gazette on the same date.
24. “*Prefectura Agreement*” means any of the agreements referred to in Section I.A.3 of Schedule 2 to this Agreement, to be entered between VMD and a *Prefectura*.
25. “Procurement Audit” means the audit referred to in Section III.D.2 (a) of Schedule 2 to this Agreement.
26. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
27. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 7, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
28. “Procurement Supreme Decree” means the Recipient’s Supreme Decree No. 29190 (*Decreto Supremo* N° 29190) of July 11, 2007, as amended and as in effect on the date of this Agreement.
29. “Project Area” means the area under the jurisdiction of the Municipalities listed in the Operational Manual, as such area may be amended from time to time by agreement between the Recipient and the Association.

30. “Project Implementation Plan” means a plan satisfactory to the Association to be issued by VMD, with the assistance of FPS, and which will include all the activities under the Project.
31. “Project Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on November 21, 2006 and on behalf of the Recipient on December 12, 2006.
32. “SAP” means FPS’ project administration system.
33. “Subgrant” means a grant made or to be made by FPS out of the proceeds of the Credit to an Eligible Municipality for the financing of a pre-investment study under Part 2.1 of the Project or an Investment Subproject under Part 2.2 of the Project.
34. “Subgrant Agreement” means any of the agreements to be entered into by FPS pursuant to Section I.E.2 of Schedule 2 to this Agreement.
35. “Subsidiary Agreement” means the agreement referred to in Section I.A.1 of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Financing available to FPS.
36. “TOU Agreement” means the agreement referred to in Section I.A.5 of Schedule 2 to this Agreement, to be entered between VMD and the AMDES for the carrying out of Parts 1 and 3 of the Project.
37. “VMD” means the Recipient’s Vice Ministry of Decentralization within MP.