

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4068-BO

Development Credit Agreement

(Rural Alliances Project)

between

REPUBLIC OF BOLIVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 7, 2005

Public Disclosure Authorized

CREDIT NUMBER 4068-BO

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated September 7, 2005, between the REPUBLIC OF BOLIVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

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

"Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association's policy of requiring economy and efficiency in the use of the proceeds of its credits. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the

Credit is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Credit Agreement as required to be consistent with such policy of the Association.”

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

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

(a) “Annual Operational Plan” means any of the plans referred to in Section 3.07 (a) of this Agreement;

(b) “Council” means the council referred to in Section 3.01 (b) of this Agreement;

(c) “Eligible Market Agent” means a market agent or a legally established organization of market agents of a Rural Alliance eligible for implementation of any of the activities included in Part B.1 (d) of the Project as a Producer Organization Subproject;

(d) “Eligible Municipality” means a municipality included in a Pilot Area and eligible for implementation of Municipal Subprojects in accordance with the provisions of the Operational Manual;

(e) “Eligible Producer Organization” means a legally established producer organization of a Rural Alliance eligible for implementation of a Producer Organization Subproject in accordance with the provisions of the Operational Manual;

(f) “Financial Institution” means any financial institution operating in the Pilot Areas and eligible for the financing of Incentives under Part B.3 of the Project in accordance with the provisions of the Operational Manual;

(g) “Financial Institution Agreement” means any of the agreements referred to in Section 3.05 (e) of this Agreement;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “Fiscal Year” means the Borrower’s fiscal year which commences on January 1 and ends on December 31;

(j) “FONDESIF” means *Fondo de Desarrollo del Sistema Financiero y de Apoyo al Sector Productivo*, the Borrower’s Fund for the Development of the Financial System and Support to the Productive Sector established pursuant to the Borrower’s Supreme Decree No. 24110 of September 1, 1995;

(k) “FONDESIF Agreement” means the agreement referred to in Section 3.05 (b) of this Agreement;

(l) “FPS” means *Fondo Nacional de Inversión Productiva y Social*, the Borrower’s Productive and Social Investment Fund established pursuant to the Borrower’s Law Number 2235 of July 31, 2001;

(m) “FPS Agreement” means the agreement referred to in Section 3.05 (a) of this Agreement;

(n) “Incentive” means a cash transfer made to a Financial Institution that provides financial assistance to an Eligible Producer Organization and/or Eligible Market Agent and meets the criteria set forth in the Operational Manual to receive such Incentive;

(o) “Indicators Letter” means the letter dated April 7, 2005 from the Borrower to the Association setting forth the Project monitoring indicators;

(p) “MACA” means the Borrower’s Ministry of Peasants and Agricultural Affairs;

(q) “Model Financial Institution Agreement” means any of the agreements referred to in Section 3.06 (a) (vi) (C) of this Agreement;

(r) “Model Municipal Subproject Implementation Agreement” means any of the agreements referred to in Section 3.06 (a) (vi) (B) of this Agreement;

(s) “Model Producer Organization Subproject Implementation Agreement” means any of the agreements referred to in section 3.06 (a) (vi) (A) of this Agreement;

(t) “Municipal Subproject” means a subproject to be carried out under Part B.2 of the Project by an Eligible Municipality selected, carried out, supervised and monitored in accordance with the provisions of the Operational Manual;

(u) “Municipal Subproject Implementation Agreement” means any of the agreements referred to in Section 3.05 (d) of this Agreement;

(v) “Operational Manual” means the manual referred to in Section 3.06 of this Agreement;

(w) “Pilot Area” means any of the areas listed in the Pilot Areas Letter, and any other pilot area as the Association shall agree;

(x) “Pilot Areas Letter” means the letter dated April 7, 2005 from the Borrower to the Association setting forth the pilot areas;

(y) “*Prefectura*” means any of the departmental representations of the Borrower’s executive branch as set forth in its Law Number 1654 of July 28, 1993;

(z) “*Prefectura Agreement*” means the agreement referred to in Section 3.04 (a) of this Agreement;

(aa) “Procurement Plan” means the Borrower’s procurement plan, dated March 23, 2005 covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(bb) “Producer Organization Subproject” means a subproject to be carried out under Part B.1 of the Project by an Eligible Producer Organization and/or and Eligible Market Agent selected, carried out, supervised and monitored in accordance with the provisions of the Operational Manual;

(cc) “Producer Organization Subproject Implementation Agreement” means any of the agreements referred to in Section 3.05 (c) of this Agreement;

(dd) “Rural Alliance” means a potential association or established association, as the case may be, of producers and market agents eligible for participation in Part A of the Project in accordance with the provisions of the Operational Manual;

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

(ff) “Subprojects” means collectively Producer Organization Subprojects and Municipal Subprojects;

(gg) “Subproject Implementation Agreement” means any of the agreements referred to in Section 3.05 (c), (d) or (e) of this Agreement;

(hh) “Supreme Decree” means the Borrower’s decree required to enable the financing of Producer Organization Subprojects as per the terms of this Agreement;

(ii) “UCN” means the national coordination unit referred to in Section 3.03 (a) (i) of this Agreement; and

(jj) “UOR” means any of the regional coordination units referred to in Section 3.03 (a) (ii) of this Agreement.

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 this Agreement, an amount in various currencies equivalent to eighteen million nine hundred thousand Special Drawing Rights (SDR 18,900,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, services and Incentives required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in its Central Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2011 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 August 15, 2015 and ending February 15, 2040. Each installment to and including the installment payable on February 15, 2025 shall be 1.25 percent (1.25%) of such principal amount, and each installment thereafter shall be 2.50 percent (2.50%) 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

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MACA, with due diligence and efficiency and in conformity with appropriate business, economic, financial, agricultural, environmental and social

practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall not later than February 16, 2005 establish, and thereafter maintain during Project implementation, a council with powers and composition acceptable to the Association, including *inter alia*, a composition comprising representatives of small producers, market agents, business sector, the *Prefecturas* with jurisdiction over the Pilot Areas, MACA, and the Borrower's ministries of Economic Development, Popular Participation and Sustainable Development.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

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

Section 3.03. The Borrower shall:

(a) establish and maintain at all times during Project implementation:

- (i) within MACA, a national coordination unit with operational autonomy (the UCN); and
- (ii) within each of the Pilot Areas, a regional coordination unit (UOR),

all with structures, functions and responsibilities acceptable to the Association and set forth in the Operational Manual, including, *inter alia*, the responsibility of the UCN to coordinate, monitor and supervise the carrying out of the Project, and the UORs' responsibilities in Subproject processing, field supervision and monitoring;

(b) ensure that the UCN and the UORs are, at all times during Project implementation, headed by a Project manager for the UCN, and staffed with adequate professional, fiduciary, administrative and technical personnel (including procurement and financial experts), all with qualifications, experience and terms of employment acceptable to the Association; and

(c) not later than February 15, 2006 complete the staffing of the UCN and the UORs.

Section 3.04. (a) The Borrower shall, prior to the implementation of Subprojects in a Pilot Area or a part thereof, enter into an agreement with the respective *Prefectura* or *Prefecturas* with jurisdiction over such area, under terms and conditions which shall have been approved by the Association which shall include, *inter alia*, the *Prefectura's* obligation to enable the Borrower to carry out the Project as set forth in the Operational Manual, including the operation of the respective UOR.

(b) The Borrower shall exercise its rights under each of the *Prefectura* Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the *Prefectura* Agreements or any provision thereof.

Section 3.05. (a) The Borrower shall, prior to the implementation of any Municipal Subproject, enter into an agreement with FPS under terms and conditions which shall have been approved by the Association which shall include, *inter alia*:

- (i) FPS' obligation to supervise the Municipal Subprojects including all procurement carried out by Eligible Municipalities;
- (ii) FPS' obligation to enter into, together with the Borrower, the Municipal Implementation Subproject Agreements; and
- (iii) the conditions for the Borrower's payment, out of the proceeds of the Credit, of selected operating costs related to FPS' discharge of its responsibilities under the FPS Agreement.

(b) The Borrower shall, prior to the provision of Incentives to any Financial Institution under Part B.3 of the Project, enter into an agreement with FONDESIF under terms and conditions which shall have been approved by the Association which shall include, *inter alia*: FONDESIF's obligation to:

- (i) supervise the provision of Incentives; and
- (ii) enter into an agreement, together with the Borrower, with each Financial Institution.

(c) The Borrower shall, prior to implementation of any Producer Organization Subproject, enter into an agreement with the Eligible Producer Organization and/or Eligible Market Agent, substantially in accordance with the terms of the respective Model Producer Organization Subproject Implementation Agreement which shall include, *inter alia*, the Eligible Producer Organization's and/or Eligible Market Agent's obligation to:

- (i) carry out the Producer Organization Subproject in accordance with the requirements of the Operational Manual; and
- (ii) procure the goods, works and services in accordance with the provisions of this Agreement.

(d) The Borrower shall, prior to carrying out a Municipal Subproject, enter into an agreement with the Eligible Municipality, together with FPS, substantially in accordance with the terms of the Model Municipal Subproject Implementation Agreement, including, *inter alia*, the Eligible Municipality's obligation to:

- (i) carry out the Municipal Subproject in accordance with the requirements of the Operational Manual; and
- (ii) procure the goods, works and services in accordance with the provisions of this Agreement.

(e) The Borrower shall, prior to the provision of any Incentives under Part B.3 of the Project, enter into an agreement, together with FONDESIF, with the Financial Institution, substantially in accordance with the terms of the Model Financial Institution Agreement, including, *inter alia*, the requirement that the Financial Institution provide financial assistance to the Rural Alliance from its own resources.

(f) The Borrower shall exercise its rights under the FPS Agreement, the FONDESIF Agreement, and each of the Producer Organization Subproject Implementation Agreements, Municipal Subproject Implementation Agreements, and Financial Institution Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the FPS Agreement, the FONDESIF Agreement, or any of the Producer Organization Subproject Implementation Agreements, Municipal Subproject Implementation Agreements or Financial Institution Agreements, or any provision thereof.

Section 3.06. (a) Without limitation to the provisions of Section 3.01 of this Agreement, the Borrower shall carry out the Project in accordance with a manual (the Operational Manual), acceptable to the Association, said manual to include, *inter alia*:

- (i) the environmental plan for the Project including a pest management plan for the Project and the Subprojects;
- (ii) the guidelines for the preparation of Annual Operational Plans and the financial management and procurement procedures of the Project (including an acceptable procurement filing system);
- (iii) the criteria for the selection and monitoring of Rural Alliances and Eligible Producer Organizations and Eligible Market Agents;
- (iv) the criteria and procedures for the eligibility (including the non-eligibility of any activity that would entail relocation or loss of shelter; loss of assets or access to assets; or loss of income sources or means of livelihood, whether or not the affected persons must move to another location), selection, approval, carrying out, monitoring and supervision of Subprojects;
- (v) the eligibility criteria for the Incentives to Financial Institutions;
- (vi) models of agreements for: (A) Producer Organization Subprojects; (B) Municipal Subprojects; and (C) for the provisions of Incentives to Financial Institutions; and
- (vii) the organizational structure for implementation of the Project, including the functions of the Council, the UCN, and the UORs.

(b) In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.07. The Borrower shall:

(a) not later than November 15 of each year of Project implementation, starting in year 2005, furnish to the Association, for its approval, an annual operational plan (the Annual Operational Plan), each said plan to include, *inter alia*: (i) the Project activities to be carried out by the Borrower, during the calendar year following the presentation of each said plan; (ii) the updated disbursement schedule for each said

Project activities; (iii) a budget plan; (iv) a procurement plan; and (v) a Project schedule with timing of activities, linkages between activities and responsibilities; and (vi) the training program to be carried out the following calendar year; and

(b) thereafter implement and cause to be implemented said Annual Operational Plan in accordance with its terms.

Section 3.08. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, not later than April 15 and October 15 of each year during Project implementation, starting in October 15, 2005, a progress report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of 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 and the achievement of the objective thereof during the period following such date;

(c) include in the progress report to be furnished to the Bank by October 15, 2008 pursuant to paragraph (b) of this Section, a report on the progress achieved in the carrying out of the Project since its beginning to such date focusing, in particular, on: (i) the progress being made in meeting indicators set forth in the Indicators Letter; and (ii) the status of outreach to the intended beneficiary population as described in the Operational Manual, and identifying any limiting factor for achieving the intended results and setting out the appropriate measures to ensure the achievement of the Project's goals; and

(d) review with the Association, by May 15 and November 15 of each year during Project implementation, starting on November 15, 2005, or such later date as the Association shall agree, the pertinent reports referred to in paragraphs (b) and (c) of this Section, and, thereafter, take and/or cause to be taken, as the case may be, all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said reports and the Association's views on the matter.

Section 3.09. The Borrower shall:

(a) ensure that consultants and service contracts entered into to assist in the implementation of Producer Organization Subprojects are awarded on the basis of the selection criteria, evaluation process and form of contract set forth in the Operational Manual;

(b) furnish to the Association for its approval, the first three investment plans of Rural Alliances to be financed under Producer Organization Subprojects, and the first feasibility study prepared under Part A.2 (b) of the Project for each Pilot Area;

(c) carry out the communication campaign referred to in Part A.1 of the Project and set forth in the letter from the Borrower to the Association dated April 7, 2005, in accordance with its terms;

(d) not later than November 30, 2005, employ the consultants required to carry out the feasibility studies of the Rural Alliances referred to in Part A.2 (b) of the Project; and

(e) not later than February 15, 2006 select the experts required to carry out the financial evaluations referred to in Part A.4 (b) of the Project.

Section 3.10. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.11. It is agreed by the parties to this Agreement that MACA shall yearly prioritize within its overall budget allocation, the budget necessary for implementation of the Project during the following year.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association 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 Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Association'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 Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.08 of this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Remedies of the Association

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

(a) FPS or FONDESIF shall have failed to perform any of their respective obligations under the FPS Agreement or the FONDESIF Agreement.

(b) Any Eligible Producer Organization or Eligible Market Agent or Eligible Municipality or Financial Institution shall have failed to perform any of their obligations under the respective Subproject Implementation Agreement.

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has adopted the Operational Manual in a manner acceptable to the Association;

(b) the Borrower has established the UCN, and selected the Project manager and the procurement and financial experts referred to in Section 3.03 (b) of this Agreement with respect to the UCN; and

(c) the Supreme Decree has been issued and published in the Borrower's *Official Gazette* in form and substance acceptable to the Association.

Section 6.02. The date December 6, 2005 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. The obligations of the Borrower under Sections 3.04, 3.05, 3.08, 3.09, 3.10 and 3.11 of this Agreement and the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. 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:	Facsimile:
FINANZA La Paz, Bolivia	791-2-2359955

For the Association:

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

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

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

REPUBLIC OF BOLIVIA

By /s/ Jaime Aparicio

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Marcelo Giugale

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	230,000	100%
(2) Special Services	160,000	100%
(3) Consultants' services (including procurement and financial audits) and Training	3,980,000	100%
(4) Producer Organization Subprojects	9,020,000	100% of the amounts disbursed by the Borrower on account of the cost of goods, works and services under a Subproject
(5) Municipal Subprojects	3,180,000	100% of the amounts disbursed by the Borrower on account of the cost of goods, works and services under a Subproject
(6) Incentives under Part B.3 of the Project	130,000	100%
(7) Operating Costs	1,130,000	100%
(8) Unallocated	1,070,000	
TOTAL	<u>18,900,000</u>	

2. For the purposes of this Schedule:

(a) the term “Special Services” means expenditures incurred for implementation of the communication campaign referred to in Section 3.09 (c) of this Agreement for consultants and other services, goods and materials;

(b) the term “Training” means expenditures (other than those for consultants’ services) incurred by the Borrower to finance reasonable transportation costs and per-diem of trainees and trainers (if applicable), rental of training facilities and equipment under the Project; and

(c) the term “Operating Costs” means reasonable recurrent expenditures that would not have been incurred by the Borrower, FPS and FONDESIF absent the Project for salaries, transportation and per-diem costs of its staff including those for Eligible Producer Organizations participating of Project activities other than Training, office rent and utilities, operation and maintenance of office equipment, and non-durable goods, all needed for the preparation and implementation of the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 660,000, may be made on account of payments made for expenditures before that date but after March 15, 2005;

(b) payments covered by Categories (4), (5) and (6) of the table in paragraph 1 above in each Pilot Area unless the required *Prefectura* Agreement or Agreements have been entered into;

(c) payments covered by Categories (4) and (5) of the table in paragraph 1 above for a Subproject unless the strategic environmental license required for implementation of the Project has been issued by the Borrower’s Ministry of Sustainable Development or any other competent authority;

(d) payments covered by Category (5) of the table in paragraph 1 above for a Subproject unless the FPS Agreement and the respective Municipal Subproject Implementation Agreement have been entered into;

(e) payments covered by Category (6) of the table in paragraph 1 above unless the FONDESIF Agreement and the respective Financial Institution Agreement have been entered into; and

(f) payments covered by Category (4) of the table in paragraph 1 above for a Subproject unless the respective Producer Organization Subproject Implementation Agreement has been entered into.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for:

(a) goods, works and services (including those for Subprojects) in respect of which no prior review of contracts is required in accordance with the provisions of Section IV of Schedule 3 to this Agreement; and

(b) Training, Incentives and Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to test a model to improve accessibility to markets for poor rural producers in the Pilot Areas by:

- (a) promoting strategic productive alliances between different economic players at the local level;
- (b) empowering rural producers through the development of self-managed grass-root organizations;
- (c) increasing access to productive assets and technology; and
- (d) promoting more effective, responsive and accountable service organizations at the local level.

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

Part A: Institutional Strengthening

Provision of technical assistance and training to provide the institutional and organizational support needed for the creation of Rural Alliances in the Pilot Areas including, *inter alia*:

1. The carrying out of a communication and dissemination campaign to inform potential stakeholders about the scope and rules of the Project through local workshops and mass-media outlets.
2. (a) Strengthening of the institutional capacity of producer groups to: (i) form Rural Alliances and prepare investment plans; (ii) improve their marketing and business skills; (iii) strengthen their skills for negotiating with potential purchasers in a Rural Alliance; and (iv) access financial assistance from the Financial Institutions and/or others.

(b) Preparation of pre-feasibility and feasibility studies of Rural Alliances and their investment plans, and provision of training to relevant stakeholders on specific themes relevant to working with small, rural and/or indigenous producers.

3. Strengthening of the capacity of technical service providers and Eligible Municipalities to support the Rural Alliances through, *inter alia*:

(a) training of officials of Eligible Municipalities in the Pilot Areas to familiarize them with the Rural Alliance concept and processes;

(b) training of staff of Rural Alliances' service providers on the Project and its fiduciary management, evaluation, organizational strengthening, business management and environmental aspects; and

(c) management of an information system with a service provider database in the UORs, including an outreach program to expand the number of available relevant providers.

4. (a) Publication and dissemination of Project activities including, *inter alia*, the results of the call-for-proposals for Subprojects, pre-feasibility and feasibility studies of Rural Alliances and their business plans; and

(b) carrying out of financial, social, environmental and technical evaluations of Rural Alliances with the assistance of external evaluators.

Part B: Subprojects

1. Carrying out of subprojects consisting of among others one or more of the following activities (Producer Organization Subprojects):

(a) on farm infrastructure such as minor irrigation canals, storage facilities, community centers for product processing and water harvesting structures;

(b) soil conservation measures such as terracing, land leveling and watershed treatments;

(c) provision and utilization of equipment, tools, machinery, veterinary supplies, seeds and other vegetative material and agriculture inputs; and

(d) provision of expert services and carrying out of studies in market and marketing, information technology, surveys, laboratory tests, publicity, organic certification and other technical productive services.

2. Carrying out of subprojects in support of the productive goals of the Rural Alliance and consisting of among others one or more of the following activities (the Municipal Subprojects):

- (a) rural road improvement; and
- (b) provision of water, gas, electricity or other utility services.

3. Provision of Incentives to Eligible Financial Institutions as needed for supervision of the financial assistance provided to Rural Alliances' members.

Part C: Project Management

1. Establishment and operation of the UCN and UORs.
2. Setting up and operation of a financial management information system in MACA.
3. Carrying out of technical studies relevant to the Project, including studies on market opportunities in rural areas, rural investment climate, social analysis of potential beneficiaries of the Project and selection of new pilot areas to be added to the Project, all as shall be proposed by the Borrower and agreed to by the Association.
4. Establishment of a functional, transparent, participatory and efficient monitoring and evaluation system for the Project, including external and independent evaluations conducted at the time of mid-term review and Project completion.

* * *

The Project is expected to be completed by March 30, 2011.

SCHEDULE 3

Procurement

Section I. General

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

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

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

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

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

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$200,000 equivalent per contract and works estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding, using standard bidding documents satisfactory to the Association.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Community Participation. Goods, works and services required for Subprojects may be procured on the basis of community participation (including commercial practices) in accordance with the procedures set forth in the Operational Manual.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

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

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

Section IV. Review by the Association of Procurement Decisions

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.

Section V: The Borrower shall:

(a) have the procurement records audited each Fiscal Year, in accordance with internationally accepted procurement standards consistently applied, by independent procurement experts acceptable to the Association;

(b) furnish to the Association, as soon as available, but in any case no later than four months after the end of each such Year, the report of said audit, of such scope and in such detail as the Association shall have reasonably requested; and

(c) at any time during Project implementation, furnish to the Association such other information concerning said audit as the Association may reasonably request.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, services and Incentives required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equal to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equal to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed SDR 2,600,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective 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 Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.